CAPITALIST ENTERPRISE AND SOCIAL PROGRESS

Maurice Dobb

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MAURICE DOBB

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PREFACE

THE opinion has recently been stated that the chief conquests in the realm of economic theory have already been made, and that the future for the economist lies " in obtaining a wide knowledge of relevant facts and exercising skill in the application of economic principles to them." Economic analysis proper has confined itself in the main to a fairly narrow range of social facts, in the sorting of which it has met with a very fair degree of success ; this range including such motives and actions as are susceptible of measurement in terms of money-price, with a significant broadening in recent years to include the important but immeasurable factor, Welfare. But before this analysis of prices can be made to contribute much of positive guidance to human life, there is much work to be done in bridging the gulf between the conclusions of pure theory, carefully fenced with their *ceteris paribus*, and the complex world with which the politician and the administrator have to deal.

This task has special gravity because the problems of our social world seldom consist exclusively of actions and motives susceptible of money measure, but of a complex texture in which economic and other factors are entwined ; and chiefly for this reason the fallacy of composition constantly appears when the conclusions of economic theory are given concrete application. Moreover, one can scarcely frame an economic theory of any realistic worth without implying, or seeming to imply, some judgment on practical affairs. Hence, we are faced not so much with an unmapped desert as with the littered confusion of prejudice and proofless hypothesis. Most obstinate of the errors which obstruct a tidying of this field seems to be that which underlay the system of the classical economists, and which, though modified and shorn of its crudities, still reigns to-day as the tacit assumption of most excursions into Applied Economics. This assumption would have us believe that economic relations are in the main and fundamentally imposed upon us by nature, and possess accordingly a permanent significance. And to the conception which Marx formulated in antithesis, that these relations are dependent on the institutions of a class society, and hence are in process of development and change, English economists have in the main chosen to deny even the grace of comprehension.

It is in the belief that a theory of enterprise must form the *point d'appui* of any consistent survey of Applied Economics, that the present work has been approached. For such a theory many of the conclusions of deductive economics are of supreme importance; but at the same time these lead us only part of the way. Our task is incomplete without some comparative survey of the influence of institutions in the growth of the existing system of enterprise, and without the aid of more specific inductive study. In approaching this the author makes no high claim to originality or completeness. He claims little more than some clearing of the ground for future building, an assembly of materials, and, perhaps, some rearrangement in a slightly novel form. In particular, the historical chapters make no pretence of original research. They are frankly a compilation, devised to bring certain relevant analogies into relief and to afford perspective. Perhaps one may urge in defence that to construct a new building does not always require a new style of brick.

The analysis in Part I endeavours to clear the main issues by approach along the ordinary paths of deductive theory. Part II attempts by a survey of the rise of capitalist enterprise to give body to some of the ideas sketched in the preceding analysis, and to indicate the importance of certain institutions in the growth and working of the existing economic system. The concluding chapters stress the relevance of these considerations to the problems which face the politician and the administrator of to-day. Those who possess a secret distaste for the toils of analysis one may, perhaps, advise to proceed from Chapter One direct to Chapter Twelve, returning later for more detailed explanation to the analytical part. For, in large measure, the historical chapters serve to illustrate ideas fashioned in the course of the analysis, while the earlier chapters afford more careful scrutiny of relations referred to in the course of the historical survey. Nevertheless, there should be little to deter the ordinary reader even in the most theoretical parts, since the author has tried, in the words of Bacon, " to render propositions not only true, but of easy and familiar access to men's minds, however wonderfully prepossessed and limited."

The painful emergence of the ideas contained in this book from chaos to a small degree of order was rendered possible by a Research Studentship, which the author was fortunate to hold for two years at the London School of Economics. And in the process considerable debt has been accumulated to numerous persons. For the first appreciation of the importance of the principle of economic measurement much is owed to Mr H. D. Henderson, my teacher at Cambridge, and to the lectures and writings of Prof. Pigou. During the period of research in London Prof. Cannan and Dr Hugh Dalton afforded me invaluable criticism, encouragement and advice. From Mrs Barbara Wootton and from Mr H. D. Dickinson much has been gained in many a personal conversation; and, in addition, Mr J. W. F. Rowe, Mr R. W. Postgate, Mr E. A. G. Robinson

of Corpus Christi, and Mr E. Welbourne, of Emmanuel College, Cambridge, have been kind enough to read parts of the work at various stages of its growth. For what of order there may be in the book these friends are in no small degree responsible, while of the chaos and errors which remain and of the opinions expressed therein they are entirely innocent.

M.H.D.

Cambridge,
May, 1925.

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PART I

Analytical

CHAPTER ONE

The Framing of the Problem

Perhaps one day a Saga may be written about the modern captain of industry. Perhaps, in the civilization which succeeds our own, a legend of the Entrepreneur will be thumbed by antiquarians, and told as a winter's tale by the firelight, as to-day our sages assemble fragments of priestly mythologies from the Nile, and as we tell to children of Jason's noble quest of the Golden Fleece. But what form such a legend may take it is not at all easy to foresee. Whether the business man be the Jason or the Æetes in the story depends on other secrets which those unloved sisters keep hid where they store their scissors and their thread. We have, indeed, the crude unwrought materials for such a legend to hand in plenty, but they are suitable, strange to say, for legends of two sharply different kinds. The Golden Fleece is there, right enough, as the background of the story. But the captain of industry may be cast in either of two *rôles* : as the noble, daring, high-souled adventurer, sailing in the teeth of storm and danger to wrest from barbarism a prize to enrich his countrymen ; or else as the barbarous tyrant, guarding his treasure with cunning and laying snares to entrap Jason, who comes with the breath of a new civilization to challenge his power and possession.

Whether as grasping tyrant or courageous benefactor, the figure of the modern business man is already swathed in mythical shrouds, through which even the learned often fail to penetrate. The old-style Liberal took him for granted, held his name a little sacred, and composed pæans to melt the hearts of the unconverted. The new-style Liberal, somewhat more critical, seeks to modify, restrain and supplement his actions with a little credit-control here and a little taxation there, and then excuses himself for pursuing so sacred a matter no further. In the Socialist, to whom the name is anathema, the business man arouses a perverse passion, which halts not to reason but rushes in anger to destroy. For all of them he is in large part a mythical figure whose real nature has been little analysed : few seek to trace his birth or to study the work he actually performs.

The classical economists said little about the capitalist undertaker[1] himself. They were mainly concerned to discover the " natural law " which governed his actions and controlled his relations with other sections of the community in so automatic a manner as to seem to them mysterious. But there was certainly little question among them that the business man was both a necessary and a beneficent person, even though Adam Smith had sharp words to say for employers in particular cases. The automatic manner in which under the new condition of affairs the industrial system worked without any superior control seemed to the economists to be so remarkable as only to find explanation on the hypothesis of a " hidden hand " ; and in consequence the whole tendency of their doctrine was to demonstrate that prevailing evils were

[1] This word, which is the equivalent of the German *Unternehmer* and of the French *entrepreneur*, will be used throughout to refer to the business man who captains and controls industry, finance, and commerce. The precise application of the term will be further discussed in Chapter 4. The word, qualified as a rule by " capitalist," will be used in this concrete sense ; and—for lack of an adequate English term—the French equivalent will generally be reserved for the *function*, in the abstract, of controlling economic operations—the function of economic synthesis or integration.

not due to the existence of the capitalist undertaker or to his extortions, but to the harsh exactions of nature, who governed the relations between profit, rent and wages by inexorable law. Since it was the undertaker's thrift and enterprise which bestowed riches on the people and gave employment to the poor, and his operations were shaped by those automatic forces of which nature held the strings, the Government while giving him security in his property must not presume to interfere with what he chose to do.[1] In this philosophy, therefore, it is not hard to see the myth of the noble, daring, adventurous Jason, enriching his fellow-creatures with the prize of the Golden Fleece; and to see how far the precepts of classical political economy, which was essentially practical in its intention, rested on the assumption of the necessity and beneficence of the business man.

Later, however, this assumption began to be brought into the light and questioned by rude, unbelieving men Then the undertaker received more explicit attention, and economic theory was called in as his apologetic. By assuming an economic society in operation under the control of ideal entrepreneurs, economic analysis was able to show that certain essential functions were required; and it was on this structure—on the fact that these functions were all-important—that there was erected the modern glorification of the undertaker, which in the works of Dr Marshall has found its most masterly

[1] Harriet Martineau, who summarized and popularized the theories of the early economists, wrote thus :—" The fact is that so far from the masters having any natural power—even if they had the wish—to oppress the working classes, the working class hold a power which may make them the equals in independence of any class in society." (*Illustrations of Political Economy*, Vol. IX, p. 52.) And again :—" The duty of the Government being to render secure the property of its subjects . . . all interference of Government with the direction and the rewards of industry is a violation of its duty towards its subjects." (*Op. cit.*, Vol. VII, 134.) " The interests of capitalists best determine the extent of capital; and any interference of the law is therefore unnecessary." (*Op. cit.*, Vol. I, 139.)

expression.[1] But the argument as it stands is circular. The entrepreneur is no more than an algebraic symbol until the assumptions of classical theory have been verified from experience, and the business undertaker of the mill and factory, of the produce market and the Stock Exchange, has been found to fall into the graceful niche provided for him by the " x " of the pure theory. To-day there is little doubt that the assumption is, to say the least, inadequate. Mobility of resources finds many hindrances. The contract between employer and employed, though free, is not necessarily equal, unless the latter has the advantage of well-organized, collective bargaining.[2] In many cases the difference between individual and collective interest may be such as to render it impossible to fit the business man into the " x " of classical theory at all.[3] What a century ago was deemed an inexplicable mystery of nature finer analysis has shown to be a complex of forces, generated largely by business men themselves, who operate within the framework of certain social institutions ; and institutions which man has made, man may also take away.

The Socialists eagerly seize upon these discrepancies. They arraign the undertaker as one whose wealth gives him autocratic power over the lives and fortunes of his employees—his " wage-slaves." The " production for profit " for which he is responsible is a faulty system, the antithesis of wise and desirable " production for use."

[1] Especially *Industry and Trade.* Less convincing examples of this glorification are found in such statements as the following :—" For the business man of exceptional ability hardly any material reward can under the conditions of modern industry be too extravagant. . . The salaries now obtained by eminent business organizers . . . prove that those who have the control of capital are awakening to the supremely important part played by management. . . If labour really understood its own interests, it would be lavish in the remuneration of management." (J. A. R. Marriott, *Economics and Ethics,* 149.) Also *cf.* below, pp. 67–8.

[2] Marshall, *Principles of Economics,* 569.

[3] *Cf.* Pigou, *Economics of Welfare,* 149 *seq.*

He is little more than an obstructionist who filches from the fruits of human toil a price for his very obstruction. "*A la lanterne* with him," they cry. "Let him not murmur about 'disappointment of legitimate expectations'! Let him feel fortunate if he escapes utter spoliation, and receives a meagre 'compensation,' when the nation's resources which he has monopolized are restored to the people!" The issue has at once become a moral one. And where sound analysis of his actual function is lacking, there the full emotional force of a myth makes haste to enter in.

Between these two, nervously fencing in two directions, so that the distinctiveness of his middle position be not obscured, stands the neo-Liberal, always eager to express agreement with both wings when his opinion is sought, always frowning dissent when his practical assistance is invited. He is no champion of *laissez-faire*. The *lacunæ* in the operation of the function of the business man are too many and too evident. The business man must be aided and controlled, perhaps by the State, perhaps by the Central Bank, more desirably by the wise counsels of a neo-Liberal Summer School. But there must be no question of supplanting the business man; for the function he performs is essential, and no one has shown that it could otherwise be performed any better. Industrial Democracy—whatever the Socialists may mean by that slogan—has very definite limits: it should not interfere with the control which must necessarily rest with the capitalist undertaker if he is to perform his essential function; and for this reason one must beware of false analogies between industry and politics. Such is the new Individualism, enjoying the advantage of being not so pure as to fall under the obloquy of its discredited sire, but still pure enough to withstand admixture with its strain of the vulgar and iconoclastic Socialism!

It will be clear that in the present state of economics a judgment between these opinions is a very difficult one. If there is any one of them that is a reasonable inference from prevailing economic theory, it would seem to be that which we have termed the neo-Liberal view; and there is some evidence that this is, at any rate, the psychological product of English economic theory. But for a surer judgment on the matter two things are urgently required. First, we must ascertain what precisely this function is from the point of view of the economic system as a whole. If the business man falls short of some ideal, what is this ideal? If his actions need to be modified and supplemented, or himself superseded, to what end is the change to be? It is even necessary to discover whether from the social point of view, such a function is required at all; or whether, as some Socialists maintain, the business undertaker is no more than a functionless excrescence. An enquiry of this kind is not so superfluous as at first sight might be thought. The function which is required of other productive agents is simple and clear; for the labourer, to work as skilfully and as intensively as possible to meet the needs of consumers; for the investor, to divert into the channels of future productivity as large a quantity of resources as possible. But the function of the business undertaker, being much more complex, cannot be so easily determined. This first enquiry, therefore, leads us to a theory of the entrepreneur *function*.

Second, we need to have a separate theory of the undertaker of the world of to-day. We need to know what divergence there is, if any, between what the business man does perform and what he should perform. This may lead us to discover to what causes such a divergence is due—whether causes incidental to the present system of business undertaking or causes inherent in it. It should aid us to distinguish the institutional conditions which tend to increase this divergence from those which tend to diminish it—a distinction which would be fundamental to a theory of social progress. Both of these questions in some degree need comparative study for an answer.

From the historical standpoint a suggestive attempt to provide the foundation for such an analysis has recently been made by an American historian, Professor Usher.[1] To his view the key to social development is to be found in the division of labour, and it is the need to co-ordinate this economic differentiation which gives rise to different industrial forms and various methods of economic control. Hitherto the prevailing habit among theorists of social progress has been to study merely historical *forms*, a habit for which certain German writers, notably Bucher and Schmoller, have been mainly responsible. It has become the custom to provide a simple series of forms which evolve with convincing and apparently immanent logic through the family-economy, the town-handicraft-economy, the national-domestic-economy, to the world-factory-economy. Many historians, particularly on the western side of the Atlantic, have exerted their ingenuity in fitting economic development into these formal categories; and then have appealed proudly for recognition of this jugglery as the acme of historical interpretation. This attitude Professor Usher very justly criticizes. He points out that social interpretation is not completed when it has arranged certain forms in a logical series. These forms do not evolve by any secret force inherent in themselves alone or by reason of some *a priori* logical necessity. The progression of industrial forms is no more than an *expression* of more fundamental developments.[2]

[1] *An Introduction to the Industrial History of England.*

[2] "There is need of careful description of the forms of industrial organization which succeed each other. There is need also of study of the conditions that produce this progression from the simpler to the more complex forms. It is peculiarly unfortunate to assume that the main task is completed when certain forms have been arranged in a logical sequence." *Ibid.*, 3.

Otherwise, how is the transition from one form to another adequately to be explained? How account for the occurrence of certain "modern" forms at other periods of history, as, for instance, factory industry and handicraft production in the classical world?[1]

The recognition of this fact, simple and obvious though it may seem when stated, is to be welcomed as a sign of a new era in historical interpretation. Instead of an explanation of development in the self-evolution of an Idea, as is too often found under the thin disguise of describing economic progress, we have here an attempt to analyse historical development in a scientific manner in order to discover the causal connection between events. To Professor Usher's view the progress which we have come to regard as *a priori* is the result of an increasing complexity of the division of labour, to which the conflict of growing human needs against natural limitations has given rise. The growth of this economic differentiation creates the need for some integrating force, without which differentiation would collapse into chaos; and it is as this integrating force in a differentiated economy that industrial forms are chiefly significant. As differentiation grows more complex, the old form tends to become obsolete and restrictive, and something more comprehensive begins to be required. For instance, an elementary stage of the division of labour will produce the household form. An increasing subdivision of crafts will produce handicraft in towns; and later a further subdivision will give rise to the domestic system, in which domestic handicraftsmen are employed by merchant undertakers.[2] The division of each process into a number of specialized parts, which power-machinery fosters, requires the latest

[1] Usher, 7–9, *cf.* also for factories in classical times, W. Cooke Taylor *History of the Factory System*, 97–9, 106, 114, 122–3, etc.

[2] This stage Professor Usher calls the "putting-out system." Schmoller has called it the *Verlag* system.

stage, the disciplined team-work of the factory, planned and directed by the capitalist undertaker. When, therefore, we find these modern forms appearing in classical times—textile factories in Greece and on the Nile, the domestic system in Italy—it is because there existed then in particular branches of the economic system a stage of the division of labour similar in complexity to that existing two thousand years later.[1]

Now it will be clear that this interpretation is of very considerable significance to the whole entrepreneur problem. If the interpretation be true, it provides a fairly strong justification by economic function for the existence of the capitalist undertaker. It does not deny the possibility that yet more complex differentiation may arise and create a need for new forms in place of those of the 19th century. But the presumption would seem to be that this need will be met by new forms of capitalist undertaking itself, such as the Trust and the international financial syndicate, rather than by the supersession of capitalist undertaking as the Socialists desire. It does not deny the possible need, in some cases, for State undertaking in place of individual or corporation undertaking. But the presumption that it provides is on the whole against this. There is a very fundamental difference between a presumption *in favour* of individual undertaking, *except in named cases* (which is individualism), and a presumption *against* individual undertaking, *except in named cases* (which is Socialism).[2] The difference is similar to that of the Mercantilists, who assumed that economic affairs would go wrong, *unless* they were

[1] Professor Usher merely suggests this interpretation. I have here developed what Professor Usher often only implies.

[2] The term Socialism is, of course, a vague one; and many persons calling themselves Socialists nevertheless favour the former presumption; they are merely stressing the named cases at the moment and so temporarily identify themselves with the Socialists. Most economists fall into the first of the two categories.

regulated, and the disciples of Adam Smith, who assumed that economic affairs would manage themselves, *if* they were left alone ; and the change from the one assumption to the other constituted a fundamental revolution of thought.

If this interpretation which Professor Usher has suggested be adequate, it follows that the capitalist undertaker is " necessary " to us in the existing state of economic differentiation, for without both of these the present population of the world could not be maintained at its existing standard of life. The rewards which the undertaker receives are " necessary costs " : they are payments essential to evoke a service which would not otherwise be obtainable ; they merely measure how indispensable his service is. Certain reforms, to alleviate human suffering and to increase the welfare which material wealth brings, are possible without affecting the efficiency of business methods. But many of the features of our present system which are criticized, such as inequality of reward and industrial autocracy—epitomized in the union of control with risk[1]—are in the main necessary evils. Nature always imposes on mankind by the limitations of her bounty a degree of harsh necessity and unloved " determinism." It is but one example of this that we see in the necessity for the capitalist undertaker ; and the evils which besmirch his entourage are determined for us by nature, not by alterable human institutions. The conclusions of the classical economists are enthroned again, their title merely being changed to rest on more scientific grounds.

This interpretation, however, though valuable as a new contribution, seems insufficient. It could only be regarded as complete if the division of labour were the only economic factor of predominant importance which accompanied the rise of the capitalist undertaker. But

[1] D. H. Robertson, *Control of Industry*, 89–92.

this does not appear to be the case. The factor of *Monopoly*[1] in various forms, and with it the formation of social classes, seems to be as essentially connected with the rise of the capitalist undertaker as is the division of labour; and the progression of economic forms would appear to be a function (in the mathematical sense), not only of the division of labour, but also of monopoly of various kinds. If this is so, it follows that there was an important group of factors which the assumptions of classical political economy failed to take into account; and what they thought to be the reflection of natural forces had actually passed through the refracting medium of the institutions of a class society. To this view the whole problem of industrial control takes on a different colour; and the desire for industrial democracy may well be, not a matter merely of certain formal rights of election and representation, but rooted in a striving to abolish monopoly and to end the supremacy of a particular class. The capitalist undertaker may have to be debited with some of the results of the monopoly on which his existence is based, as well as credited with his virtues in fulfilling an indispensable economic function, for which society is willing to pay very highly if it cannot under existing conditions get it performed in another way.

The reason why this hypothesis has scarcely even been considered is hard to define, unless it be that their social position has made economists rather blind to certain factors which to another perspective bulk large. It seems, however, to be in part an effect as well as a cause of the habit, inherited from the *laissez-faire* school, of considering only the restrictive aspect of monopoly. Economic theory shows that monopoly disturbs the allocation of economic resources between their productive uses, and causes it to be different from what it otherwise

[1] For the sense in which this term is used, *see* below, Chap. 7.

would be.[1] But it does not necessarily follow that monopoly makes the allocation of resources further from the ideal than it otherwise would be; although this is what those too hasty in disregarding the *ceteris paribus* of a deductive statement tend to conclude. Monopoly may have other effects than this disturbing one. It may, in fact, at times play a definitely constructive *rôle*: it may facilitate a new division of labour and a better allocation of resources than would otherwise have occurred.[2] This is the essence of Friedrich List's Theory of Productive Powers. Monopoly, in short, may in some conditions be constructive, and in others harmful and destructive; and for this reason, if the capitalist undertaker is the product of monopoly, he can be regarded *a priori* neither as invariably beneficent and necessary as the Liberals tend to claim, nor as invariably maleficent and superfluous, as the Socialists so often contend. He may be a Jason in youth and an Æetes in old age, or the wild-oats of inexperience may give place to the mellow fruits of later years.

[1] *Cf.* Pigou, *Economics of Welfare,* 235–9.
[2] *See* below, Chap. 11.

CHAPTER TWO

ENTREPRENEUR THEORIES

AN approach to the problem of enterprise is not an easy one. One's path is compassed with much darkness and is littered with many vague, confused and undefined phrases ; a fact which is particularly unfortunate since it is through this region that the way to applied economics must inevitably lie. A primary obstacle, as was suggested in the last chapter, consists in the failure to disentangle what the undertaker does and what he should do. To say that he fills, whether well or ill, some niche which would have to be filled in some way in any economic society, is to make a fairly obvious statement. But the shape and dimensions of that niche have received remarkably little attention. Some have assured us that the undertaker fits it, as though designed by his Maker for that purpose. Others declare to the contrary that he is as incongruous in it as would be the devil in St. Peter's office. How judge between these statements if one knows not what it is that has to be filled ? A still further difficulty is that those who have approached the question by seeking to ascertain what work the undertaker actually does perform have put before us in the shape of agreed findings a very meagre collection of material.

What the early economists in Britain did to light the path was in general very slight. The best contribution consisted of some remarks of Adam Smith, which remained for a century or more quite the most illuminating. The key to opulence was for Adam Smith the division of labour; and it was in relation to this that any method of conducting trade and industry must be judged. The development of this division of labour he ascribed, not to any conscious design—"to any human wisdom which foresees and intends that general opulence to which it gives occasion"—but to the growth of the commercial, capitalist spirit—to "the propensity to truck, barter and exchange one thing for another." Its extension was aided by the extension of this propensity; it was conditioned and bounded by the limits to this power to exchange—"by the extent of the market."[1] But beyond this fruitful suggestion he did not go. He was content to remark that the greatest extension of the division of labour had come as the automatic result of the actions of commercial undertakers whose enterprise was loosed under conditions of economic freedom; and for his disciples at any rate it was sufficient that this observation supplied a justification of the new industrial system. The manner of this automatic adjustment he did not stay to analyse. His followers in their wonder at it covered the mystery with the assumption of an "invisible hand"—a "natural law." Mercier de la Rivière, the Physiocrat, in his surprise that "le monde va de lui-même" was led to postulate "que l'intérêt particulier d'un seul ne puisse jamais être séparé de l'intérêt commun de tous."[2] Bastiat discoursed eloquently on his "economic harmonies"; and McCulloch was led confidently to claim that "the various general laws which regulate and connect the apparently conflicting but really harmonious interests of every different order in society have been discovered, and established with all the certainty of demonstrative evidence."[3] But the wisdom on which such confidence as this was based was in default, not in service of an

[1] *Wealth of Nations* (Ed. Cannan), Vol. I; 5, 15.
[2] *L'Ordre Naturel*, II, 444.
[3] *Princs. of Pol. Economy* (1825), 60.

explanation. As a result, the whole matter was left reverently unquestioned; and until the last quarter of the 19th century economists in Britain had only the vaguest conceptions of the undertaker's function, a vagueness which is reflected in their failure to draw a clear distinction between interest and profit.[1]

Meanwhile an alternative scent was being followed in an attempt to find the quality which was typical of the undertaker and contributed to his success as a progressive force; and from this enquiry two main types of explanation emerged. The one emphasized the speculative quality—the bearing of uncertainties; the other described the undertaker by his work of superintendence and direction. Cantillon, writing forty years before *The Wealth of Nations*, employed the term "entrepreneur" to describe the worthy gentleman who bought goods "at a fixed price" and sold them "at an uncertain price."[2] This conception clearly had some kinship with that of Adam Smith, since it fastened on a crucial feature of that "propensity to

[1] *Cf.* the remarks of Sidgwick, *Principles*, 331. J. S. Mill came close to the modern conception of profits, but, as Sidgwick mentions, even he showed signs of confusion (*Principles*, Vol. I, 495 *seq.*).

[2] "They buy the wares of the country . . . (and) give for them a fixed price to sell them again wholesale and retail at an uncertain price. . . These Entrepreneurs can never know the volume of consumption in their town, nor how much their customers will buy of them. . . All this causes so much uncertainty among these Entrepreneurs that there are almost daily cases of bankruptcy among them. . . . The manufacturer who has bought wool from the merchant or farmer cannot know how much profit he will get out of his enterprise in selling the cloth to the merchant drapers. . . The draper is an Entrepreneur, who buys cloth from the manufacturer at a certain price, because he is not able to foresee what quantity will be consumed." (*Essai sur la Nature du Commerce*, Chap. 13, 62–70). This conception of uncertainty-bearing, however, seems to have had a much earlier mention. A manuscript book, written by "a bailiff of Blackmoor" in the reign of Queen Elizabeth, mentions the difference between the tin-worker and the "farmer" or small contracting master as that between "two choyses—the one a certaintie and the other an uncertaintie. The farmer knoweth not how his worke will doe, until tyme that he has proved it, and must needs live in hope all the yere, which for the most part deceiveth him (as the saying is) '*Qui spe vivit nusquam agit vitam.*'" (Quoted L. L. Price, *West Barbary*, 37).

truck, barter and exchange." But the valuable hint went undeveloped; for what place had the uncertain when all was directed by the omniscience of "an invisible hand"? The French economists, indeed, were in this respect in advance of their brethren across the Channel, since they emphasized the distinction between profit and interest—for example J. B. Say.[1] But their treatment generally differed from Cantillon, making the significant work of the undertaker his "work of direction." Sometimes, indeed, this conception added special virtue to the undertaker's record; for the Saint-Simonians, regarding profit as a species of wage-payment, exempted him from their ethical attacks on interest. In later years when the new conditions of large-scale organization in America had indicated the need for attention to the undertaker *per se*, it was this type of definition which was adopted and expanded. As developed by F. A. Walker, the statement remains, perhaps, the best of its kind. The function of the undertaker, he said, was to "furnish technical skill, commercial knowledge, and powers of administration; to assume responsibilities and provide against contingencies; to shape and direct production, and to organize and control the industrial machine."[2]

As soon, however, as serious thought began to be devoted to the subject, it came to be seen that both these explanations had a cardinal defect. Both tended to stress unduly the passive and static aspect of the matter. The one pointed out that it was never possible to calculate precisely how much food people would consume, the quantity and the manner of clothes that they would wish to wear, the quality and quantity of raw materials that might be available at any particular time. Persons who were willing to bear the brunt of these uncertainties were doing a service for which they could reasonably

[1] *Treatise on Pol. Economy* (tr. C. R. Prinsep, 1821), Vol. II, 101 *seq.*
[2] F. A. Walker, *The Wages Question*, 245.

expect a reward. The other explanation indicated that a factory needed management and superintendence; a specialization of workers on machine processes required some superior power to control and direct, as a team needs a captain and a body needs a head. But in neither explanation was there anything to show a connection between the undertaker's work and the extension of the division of labour, on which Adam Smith had laid such stress.

As the industrial development of the 19th century advanced into its final decade, the inadequacy of these earlier ideas about the undertaker was generally recognized. The uncertainties of existing markets could be greatly diminished by combining them in larger units, and what still remained could be calculated with approximate precision according to the principles of probability, and could be insured against. As the small partnership gave place to the Joint Stock Company, more and more of the work of "superintendence and direction" was handed over to salaried managers. Could it be that the undertaker was being supplanted by the growth of the insurance company and the training of expert managers? Could profit be resolved entirely into insurance premiums and managers' salaries? *Prima facie* this seemed unlikely: there was something much more that appeared in the undertaker's work, and that "something more" was essentially active and creative. As soon as the question was squarely faced, the answer became clear. It was realized that the uncertainty which was most important was that concerned with new markets, yet unexplored, not with existing markets, whose probable variation was largely calculable. The changes that were of greatest moment to the undertaker were those which he or his kindred themselves pioneered and created, not those which he suffered passively as the will of God. It was not in the execution of an existing plan, but in decisions as to the introduction of new plans, that undertaking genius found its chief employment. As pioneer the undertaker reaped his proudest gains ; and as pioneer he carried on the tradition of Adam Smith's hero, who bestowed increasing opulence on mankind through the extension of the division of labour.

Nor was this all. It began to be seen that there was something more important than the relations inside each factory or each unit captained by an undertaker ; there were the relations of the undertaker with the rest of the economic world outside his immediate sphere.[1] Not only was the captain important as the man who superintended the internal discipline of his company ; he was also one of many captains whose companies combined to form battalions and brigades. In the one case the undertaker busies himself with the division of labour inside each firm, and this he plans and organizes consciously. In the other case he is related to the much larger economic specialization, of which he himself is merely one specialized unit. Here he plays his part as a single cell in a larger organism, mainly unconscious of the wider *rôle* he fills. It is a feature of his commercial instinct that he reacts to certain immediate stimuli without apprehending the larger ends which his reaction may serve. As Adam Smith indicated, the " propensity to truck, barter and exchange " begets its progeny without being conscious of the procreative significance of its act.

The more recent view, therefore, dignifies the undertaker as the co-ordinator of industrial processes and as

[1] " The management of the various industrial plants and processes in due correlation with all the rest and the supervision of the interstitial adjustments of the system is commonly conceived to be a work of greater consequence to the community's well-being than any of the detail work involved in carrying on a given process of production. This work of *interstitial adjustment* . . . has become urgent only since the advent of the machine industry . . . It therefore rests with the business man to make or mar the running adjustments of industry." (T. Veblen, *Theory of Business Enterprise*, 18–19.)

the creative agent in economic change. He is the integrating force of Prof. Usher's conception.[1] Prof. J. B. Clark speaks of "the co-ordinating function," and suggests that in modern industry "it is in reality the intrepreneur who does the moving, and it is competition which makes him do it."[2] Prof. Davenport says that "the process (of adjusting supply to demand) is captained by the entrepreneur, is guided and supervised by him, and worked out through him. . . The entire process is at every stage of it a price process in the competitive price mechanism."[3] And Marshall, echoing Adam Smith, declares that "the most vital changes hitherto introduced into industrial life centre round the growth of business undertakers."[4] The undertaker is essentially the ideal entrepreneur, and the men of the 15th century could have found no better title for him than "adventurer."

The explanation, in default of which the early economists postulated the operation of a natural law, has been provided by Marshall's Principle of Substitution,[5] and this principle, though like most economic discoveries both simple and obvious, is the keystone of whatever modern theory of enterprise may be said to exist. By means of this principle the mystery of those automatic forces of nature is banished, and we are shown the manner in which the undertaker's commercial passion transforms itself, without his being aware of it, into an engine of economic progress. The preoccupation of the undertaker is essentially with quantitative measurement, operating through the medium of money-price. This is for him the measuring rod, by which he adjusts all his activities, choosing continually between numerous alternatives according to its verdict, reducing to this common measure all his costs and receipts and contrasting them. To make the aggregate

[1] *Cf.* above, p. 10.
[2] *Distribution of Wealth*, 3.
[3] *Economics of Enterprise*, 139.
[4] *Principles of Economics*, 745.
[5] *Ibid.*, 341, 404–7, etc.

difference between these two sets of prices—his profits—as large as he conveniently can is his dominating aim.

As a result, the principle of substitution is made to operate in three ways. Inside his own firm the undertaker continually substitutes one thing for another in the interests of economy, here replacing an existing plan of organization by a more efficient one, there substituting machinery for labour that is relatively expensive. It is similar in his relations with the outside world. He will buy his materials from the cheapest sources, and send his wares to markets where buyers are willing to pay the highest price. When costs are high and selling-prices low, he will lessen the quantities passing through his hands and *vice versa* ; and in this way he aids the substitution of that which is greatly demanded as compared with its money cost for that which shows a smaller difference between cost and selling-price. Finally, he himself will suffer substitution, when he no longer satisfies the economic measuring-rod ; and the imperious instrument which supplants him is forged unconsciously by the whole body of other undertakers and consumers, who continually apply the principle of substitution for their own limited ends.

The consequence of all this is twofold. First, there is a continuous adjustment of supply and demand in all directions, so that human effort tends to be concentrated on supplying needs which (expressed in money) yield the greatest surplus of satisfaction over cost. Where in one avenue of production demand grows or diminishes, there supply quickly responds. When desires can only be satisfied at a money cost which is relatively not worth while, then human effort is transferred to other activities which are more remunerative. Second, this continuous substitution leads to a rapid introduction of more efficient methods and instruments. A new machine will be substituted for labour, a more efficient undertaker for one who is old and routine-bound. New groupings of workers will be organized, or a new grouping of undertakers themselves, so as continually to extend and develop the division of labour. Some writers, indeed, have been so impressed with the importance of the second point, involving as it does the facing of the uncertainty of the results of change, that, harping back to Cantillon, they have crowned the undertaker as the prince of uncertainty-bearers—a specialist who takes the uncertainty of others upon his own shoulders and grows skilled in the bearing and the destruction of it.

We are faced, therefore, with a fourfold distinction. On the one hand, there is the static aspect and the dynamic aspect, corresponding very largely to the calculable and the incalculable in the results of economic action. On the other hand, there is the difference between that part of his work which the undertaker consciously plans, and that larger part which he performs unconsciously as a unit in a greater whole. The latter distinction belongs to an analysis of the work which the undertaker actually performs, and will accordingly be reserved for later consideration. It is the former that is the more relevant to the theory of the ideal entrepreneur function, which is our immediate interest.[1]

Towards such a theory of the entrepreneur function the furthest and most comprehensive advance has been made by Prof. Pigou. His approach to the question has been

[1] The analytical tools for the solution of this problem have been provided by the modern marginal theory; and it will be in this service, perhaps, that the theory in question will find its chief historical justification. It has elucidated the connection between consumers' demand and price movements, and has focussed attention on movements of small quantities at the margin. It is here that it throws light essentially on the operation of the principle of substitution; for this principle operates under the guidance of price changes, and is seen in the shifting of marginal units—a little more land and a little less capital here, a little less labour and a little more capital there. A great debt is, therefore, due to Marshall for both fashioning these tools and indicating their primary use.

to enquire under what conditions the work of the undertaker is likely to fall short of the ideal—an ideal which he postulates as the production of maximum economic welfare. It will clearly do so in two cases: first, where money-price is an imperfect measure of real demand and real cost; and, second, where the gain or loss of the undertaker from a certain course of action diverges from that of society as a whole.[1] To the extent that these conditions are present the presumption of *laissez-faire*—of leaving the undertaker to his own devices—does not hold good, and there is some reason for the State to interfere, either in the one case to reduce the inequality of income which is a prime cause of the imperfection of money as a measure of need, or in the other case to hinder or to supplement the initiative of the private business man.

Now this method of approach has the merit of a certain simplicity. Its results have been both considerable and admirable, and it clearly offers the best way of first clearing a path through the prevailing confusion. Most of the results obtainable by this way, however,—if the judgment be not too hasty—seem already to have been yielded; and since it is not the only approach, the suggestion of another is, perhaps, not unreasonable. Moreover, the method is not free from certain disadvantages. It involves the assumption, borrowed from the silence of classical economy, that the undertaker's work is identical with the ideal, except in the cases explicitly named in the course of analysis. In the early stages of investigation such an hypothesis is perfectly justifiable; but in proportion as the investigation is successful in disclosing exceptions, the hypothesis itself becomes progressively less warranted. There are always plenty of those—not always minds of a second-rate order—who forget that such an hypothesis is no more than provisional and a mere logical convenience,

[1] *Economics of Welfare*, 52–3, 149 *seq.*

and serious misinterpretation consequently tends to occur. The assumption is given too easy a passage into applied economics, where it is hailed as an accredited envoy from economic science; and having attained in this way a certain official dignity it is tempted to remain silent concerning its purely provisional origin, until it becomes an actual nuisance and obstruction. The mere use of the same word for the algebraic symbol of pure theory and for the concrete business man of applied economics—for the niche that has to be filled and for him who fills it—is a source of confusion, in thought as well as in discourse. Often it is difficult to discover which of the two meanings a writer has in mind; and there is a natural tendency, born of the frailty of human thought, to pass in the course of an argument with acrobatic facility from one meaning of the word to the other. The effect on the average student of the subject, who is unlikely to appreciate such subtleties, is to impart to him a definite bias—the glorification of the capitalist undertaker.

There is much to be said, therefore, for an abandonment of this assumption altogether, and for the adoption of an alternative method of approach. The road of scientific progress is strewn with the bones of such assumptions of identity which in their day served a useful purpose; and so we shall not be without precedent in discarding this one. Instead in the next chapter a description will be attempted of the entrepreneur function which needs to be fulfilled, irrespective of the concrete method by which any society may try to do so.

CHAPTER THREE

THE ENTREPRENEUR FUNCTION

IF we assume a differentiated industrial society—a society based on modern machine technique and the extensive division of labour which characterizes it—we shall have made an assumption about the nature of the economic system, which is independent of the manner in which property is owned or in which industrial administration is arranged. We shall have postulated an imaginary economic system which enables us to view the general problem of the needs of a differentiated society as separate from the particular issues involved in a slave society, a capitalist society, a communist society, or a community of small property-owners. Whether the imaginary society we have postulated is any of these we are not for the moment concerned. Our interest is for the present in the hole, not in the pegs which fill it, whether they be round or square or hexagonal.

It does not require much argument to show that in a society of this description some co-ordinating force would be necessary. The fact of the division of labour means that society is split into numerous producing groups. Each group specializes on one line of activity, and inside each are smaller groups of workers engaged on different and specialized parts. Each relies on exchange of its products with the products of other groups, and if it finds this exchange impossible it is forthwith deprived of a livelihood. Now, this process of exchange is not merely a matter of distributive machinery—of railways and lorries to transport the goods from place to place, of clerks and account-books to register the exchanges. The greatest possible advantage for all can only be obtained if this exchange is regulated in a certain way, and if, moreover, the activities of the various groups are themselves controlled and regulated according to a certain plan. The members of each group are undergoing certain efforts and sacrifices—a certain *disutility* or *cost* in the course of their productive work. Out of the exchange of the product of their work they hope to obtain goods and enjoyments which will give them a certain satisfaction—a certain *utility*. Clearly, they will only get the best results if their activities are so planned and their exchanges so arranged that the surplus of total utility over disutility is as great as possible; nor will they be willing, unless they are a community of angels, to continue to suffer disutility—say, to work overtime—beyond the point where they cease to get in exchange things which yield sufficient utility to balance the disutility of their extra work.

Let us assume a group of boot producers whose main requirement is bread; and let us suppose that with great zeal and public spirit they have increased enormously the production of boots, so as to leave far behind the more lazy and time-serving millers and bakers of bread. In this case it may well be that the amount of bread which the former can get in exchange for their last few pairs of boots is so small as to be insufficient to repay them for the disutility that has been suffered in making those extra boots.[1] In this case, clearly, the greatest possible net utility has not been obtained, and the disadvantage of a "glut" of boots of this kind could only be avoided if the

[1] Attention has here been paid only to the point of view of the bootmaker. The baker on his side may gain because his bread is scarce relative to other things and the disutility which his last few loaves cost him relatively small. But he is unlikely to gain as much as others lose, on the principle of diminishing utility of consumption and the increasing disutility of effort

production of boots were carefully regulated in conformity with the activities of the bakers and other groups. The principle on which this regulation would have to proceed would be that the utility of the last few pairs of boots to the community in general always exceed the cost involved in producing them. In economic language, these last few pairs of boots are the *marginal* pairs ;[1] and our principle, therefore, can be shortened to : marginal utility must balance marginal cost, if the maximum utility is to be obtained.

This point can, perhaps, be illustrated and expanded further by the traditional example of Robinson Crusoe. Crusoe may work hard or he may idle, but his best efforts may be nullified unless he co-ordinates and directs his activities appropriately. If he spends all his energies in the collection of yams, he will soon grow weary of them as his staple diet ; and the advantage to him of possessing more will be quite outweighed by the nuisance of collecting them. His week's work will be better in its results if it is distributed more equally between collecting yams, catching fish, making a boat, gathering fuel and repairing the roof of his hut to withstand the weather. If at the end of the week he has two hours to spare, he will balance in his mind the relative advantage to be gained from the various alternative duties which press upon his conscience, as against the irksomeness and disadvantages of each. Perhaps the collection of yams, though it would yield much food, involves a long tramp ; and he may have a large stock of yams already. Fishing, though restful and pleasant, may offer a very uncertain reward. The need for fuel or a weather-proof hut may not be very urgent until the winter months arrive ; and in the end he may

[1] " Last " must not be interpreted here as meaning necessarily last in time or lowness in quality. *Marginal* is used in the mathematical sense of the final number in a series. In a stock of 100 boots the marginal boot is not any particular one, but merely the 100th boot.

prefer to shock the instincts of the Puritan by basking in the sun and listening to the gentle rhythm of the surf.[1]

In a similar though less obvious form this problem arises in any industrial community—the problem of the allocation or most profitable application of resources. There is the question of how much of the labour and material resources should be devoted to constructional work which will not yield full fruit for several years in the future. If more labour and resources are applied in this direction, there will at the moment be less available for producing to meet immediate needs; and relative utilities and relative costs must here also be weighed in the balance.[2] Again, it will be no simple matter to decide to which of various competing uses to apply the constructional work itself. Shall more railroad facilities be provided between Liverpool and Manchester and other Lancashire towns, or shall a tunnel be made beneath the Thames to relieve the traffic congestion of London? Shall more houses be built as dwellings, or more docks, or more factories to increase industrial production? Or, instead of all these, shall a big scheme of electrification of the West of England be undertaken by harnessing the waters of the Severn to our service? Let us imagine the plight of the supreme director of economic affairs—whether he acts by political ukase or through invisible "natural laws"—faced with a typical problem. The cotton industry of Lancashire claims equally with agriculture and with the boot producers of Northampton that it satisfies essential social needs and consequently requires new mills and new machinery to expand its production. The supreme director, be

[1] *Cf.* H. D. Henderson, *Supply and Demand*, 169, 172–7; Fetter, *Principles of Economics*, 265–6.

[2] Here it will be necessary to balance the intensity of present wants against future wants. This involves the conception of "time-preference"—the preference people have for present utilities as against utilities in the future. *Cf.* Irving Fisher, *Rate of Interest*, 87–133; also Henderson, *op. cit.*, 14–17, 130.

he heavenly or terrestrial, might decide the awkward question in a variety of ways. He might bow to the charm of the flaxen hair and blue eyes of the him or her who pleads before his throne the cause of Lancashire. Or, in another mood, he might allow himself to be won by the brilliant wit and ready tongue of the spokesman for Northampton. Again, moved by a physiocratic bias, he might judge the countryside to be always more worthy than the town. Finally, out of show of equity, he might decide to make division equally between the three. But amid this variety there would be only one plan of allocation which would be economically the right one—that which yielded the greatest economic return. The rightness of his decision would consequently depend upon his ability to measure this economic return by a balancing of utilities and cost.

In short, if the maximum economic welfare is to be obtained, capital equipment (and labour and materials and land as well) must be allocated to its various uses in such a way as to yield *the greatest net utility*.[1] The essential condition of this, by which it may be judged, is that the yield (in net utility) of the marginal unit employed should be approximately equal in all uses ; for only under this condition could no gain be obtained by shifting some capital equipment from one use to another. For instance, if in agriculture capital equipment is so short that the addition of a little more would make considerable difference to the total output, while at the same time in shipbuilding plant is so plentiful that to remove some would involve little loss to production, then clearly the best allocation of capital equipment has not been made. Much gain would have resulted if the labour and resources sunk in

[1] This can, of course, have no precise significance unless it is expressed through the actions of individuals in terms of a common unit of measurement—money. For the present, however, the manner of this measurement and its possible imperfections are neglected.

shipbuilding plant had been shifted instead to the creation of more agricultural machinery. So long, therefore, as the yield of the marginal unit of capital remains appreciably lower in one use than elsewhere, there will probably be a gain in shifting some capital to other uses where the marginal yield is higher.[1] In adjustment of this kind lies the core of the problem of industrial harmony. It is a problem which exists on a small scale inside each industrial group—the problem of making each department " pay its way " and of getting the best possible results from the expenditure of every pound. But in the relations between industrial groups it becomes a much more comprehensive, complicated and significant matter. The destruction or weakening of this adjustment will nullify the best results of human labour and invention, and will dissipate recklessly the kindest endowments of nature.

So far, however, a purely static condition of affairs has been assumed, and our analysis has been confined to a discovery of the kind of adjustment that is necessary to get the best results from any given set of static conditions. But there is also the dynamic aspect of the matter—the extension of the division of labour, responsible for " the greatest improvement in the productive powers of labour." For a society to increase its wealth, as distinct from securing the most out of its existing resources and organization, there must be a continual development, planning anew, and regrouping of activities so as to increase the yield of human effort. There will constantly occur certain changes which will necessitate an adaptation of economic organization to the changed conditions. Some wants will become satiated and decline ; new wants will spring into being, or some existing wants increase. Old sources of raw materials will become exhausted, new sources will be

[1] This statement neglects costs of movement, rendering shifting impossible or not worth while. But the statement remains true of new additional units of capital. *Cf.* Pigou, *Economics of Welfare*, 114–124.

discovered or become accessible. All changes of this kind will need a regrouping of resources, and only in so far as this rearrangement occurs quickly and smoothly will actual loss from the change be avoided. The changes may require, for instance, the movement of factories from the centre of towns into the country, thereby making desirable the use of low buildings with more land-space, in preference to the addition of extra floors to factory-buildings of a small ground-space. They may involve the substitution of capital for labour in the groups producing finished goods, but a greater employment of labour on constructional work and in the wresting of raw materials from the earth. They may create the need for an industry to migrate nearer to new markets or new sources of power, or even cause one industry to decline into insignificance, and an entirely new industry to spring into being. Each series of changes will produce a new set of conditions, to which the grouping of resources has to be adapted, if the best results are to be obtained. The longer the interval between each change and the successful adaptation to it, the greater will be the loss suffered owing to the absence of the conditions of static adjustment, which have just been discussed above. If, in fact, the adaptation lags so far behind that the average rate of adaptation is always slower than the average rate of change, then a permanent state of maladjustment will be suffered, which may even be cumulative, and the situation will be similar to that of the proverbial old lady who travelled on the underground railway, and because of the slowness of her recurring efforts to alight continued to travel for an indefinite period.

But mere adaptation is not the whole of the matter. A society may increase in wealth because there occur changes which require adaptation, rather than because the adaptation is successfully achieved. In addition to adaptation there is the need for innovation—the need to pioneer such changes as will increase the yield of human effort.

These will fall roughly into three classes: inventions in technique, geographical discoveries which affect conditions of supply and of transport, and inventions in organization. The work of the inventor or the discoverer in such changes is only the first step. If the change is to descend from the realm of theory to that of practice, the adoption and introduction of the invention or the actual exploitation of the discovery will have to be arranged. This is a quite distinct matter from the invention itself, and is by no means the simple matter which the words imply. It will need the combination of two rather subtle qualities, about which at present we have little precise knowledge. First, it will need the intuitive quality of choosing between numerous alternatives and choosing the right one, a quality which will require a certain power of imagination—the power to grasp and to conceive future possibilities. Second, it will need a certain courageous self-confidence—confidence enough to make the choice, and courage enough to force it into effect even in the face of opposition and when there is very little scientific basis to render the outcome anything but extremely uncertain. Bitterest scepticism before making a choice, persistent and unerring faith in the choice when it is made—these are both necessary if decisions are to be the right ones, and if the enforcement of them is to be carried to success. In social life this quality is essentially the creative quality. The loss of it spells stagnation, however bright may be the genius of science and however great the devotion of those who toil.

It is into this dynamic aspect of the matter that the factor of uncertainty enters most conspicuously. For uncertainty will occur when the course of events is incalculable or unforeseeable; and it will be economic change, introducing something new, which will contain the greatest incalculable element. Every kind of economic activity will be exposed to the occurrence of certain losses.

A certain number of ships may be lost every year ; bad harvests may impose famine ; fires, earthquakes, accidents may occur ; consumers' wants may so fluctuate as to cause waste at certain times in the attempt to satisfy them. These losses will be of the same character as the ordinary costs of economic activity—costs involved in nature's resistance to the satisfaction of human wants. In so far as their occurrence can be foreseen, they will be calculated as an item in costs, and they will influence the adjustment of economic activities in the same way as any other cost. For instance, in the case of shipping, the losses themselves or the cost of the insurance premium would figure as an item in shipping costs ; and this would influence the extent of the investment of national capital in shipping services in contrast to the employment of capital in other useful services. An important difference, however, between these losses and other economic costs may be that these losses may not be constant, but may occur only at intervals. This periodic occurrence by making costs higher at one time than another will cause the social income to be uneven, and for this reason will cause an additional diminution of social utility ; for a given income which is uneven through time will usually yield less total satisfaction than when it is distributed equally.

But it is when the occurrence of these losses cannot be foreseen that an additional and much more serious economic loss is incurred. The adjustment of economic resources so as to get the maximum return, of which we have been speaking in this chapter, presupposes that both cost and utility are calculable quantities. If they are not calculable, then to that extent adjustment is rendered impossible. It is this loss, therefore, involved in a faulty adjustment of resources through " a divergence between the *expected* course of events and the course *actually* *realized,*"[1] that is the most serious real burden which economic uncertainty imposes on society. It is due to a limitation of the power of economic adjustment owing to the limitation of human knowledge.

If we approach the matter from the point of view of the imaginary economic society which we are considering as a whole, we shall find it convenient to classify two main kinds of uncertainty. First is the case where our knowledge is sufficient to calculate the loss which will arise over a sufficiently long period of time, but insufficient to calculate the loss which will fall within any given short period. One may be able to calculate with but a small degree of error the number of ships which will be lost in the course of a century, and hence the probable loss in any one year. But the actual loss from year to year may vary considerably beyond power of anticipation. In such cases the adjustment of resources *at any one time* will tend to be imperfect, owing to these variations—owing to the divergence of " the expected course of events " from " the course actually realized." But on the average and in the long run resources will tend to be appropriately adjusted, and the loss from maladjustment will accordingly be relatively small, being limited to the extent of the variation in the occurrence of the losses.[2]

Second is the case where our knowledge is insufficient to foretell with any approximate accuracy what losses are likely to occur even over a long period of time. In this

[1] A. H. Willett, *Econ. Theory of Risk and Insurance,* 39. Although to simplify the argument we have mentioned only losses, the same applies to uncertain gains. Here, instead of maladjustment causing actual wastage of resources, maladjustment will prevent the full possibilities of the gain from being realized, because resources are not used to their greatest effect.

[2] It will follow that when the risk or probability of loss is either low or high, the variation and hence the uncertainty and the maladjustment will be small. When the risk is midway between high and low, the variation will be at its greatest and the total extent of the maladjustment over a period of years will be greatest. (*Cf.* Willett, *op. cit.* 27 *seq.*)

case adjustment of resources will be rendered impossible except by pure guesswork, and the loss from maladjustment will not be limited to a variation of losses about an average, but may be indefinitely large.

The difference between these two classes of uncertainties is, of course, largely a matter of degree,[1] and so, in consequence, is the loss from maladjustment. In practice the difference corresponds to that between uncertainties which can be shifted on to others by insurance for a fixed premium and uncertainties which cannot be so shifted for want of the data on which to base an actuarial calculation. Moreover, it is the latter class of uncertainty which is usually associated with economic change effected by human design ; for innovation, by creating a future that is different from the past, cuts away the basis—generalization from past experience—for a calculation of future probabilities. It follows, therefore, that from the point of view of society as a whole the burden of risk will show itself in certain losses which will figure as ordinary economic costs and will render human effort less productive. In addition, in so far as there is variation in the occurrence of these losses social income will be rendered uneven. The burden of uncertainty will be felt in the loss of productivity which will be caused when inability to foresee the course of events results in maladjustment of resources. Under conditions of economic progress—an increasing yield of net utility to human effort—these losses will be counterbalanced by the gains. But the possibility of economic progress will itself depend on human willingness to face this uncertainty and the ability on meagre evidence to make judgments which are approximately correct. It is on this active quality, not on any passive capacity

[1] *Cf.* C. O. Hardy, *Risk and Risk-bearing*, 46. Mr F. H. Knight, however, treats them as essentially different in kind, calling only the second an uncertainty. (*Risk, Uncertainty and Profit*, 19–20, 37, 48, 313 *seq.*)

for bearing uncertainty calmly, that the possibility of economic progress chiefly depends.

There are, however, two additional kinds of uncertainty, which do not strictly belong to a study of the Entrepreneur Function, although they are seldom explicitly separated from it: they are not natural costs, common to any society, but relative only to individualist conditions. Lest confusion should follow neglect, it seems better to mention these cases here.

First, there is the case, not of any additional uncertainty as to the course of events, but of uncertainty as to individual income. This increased uncertainty about income on the part of individuals magnifies the real burden which risk and uncertainty ordinarily impose. It will occur in a system of enterprise where the responsibility for bearing uncertainties is considerably diffused among separate parts of the system, and where, in consequence, the income of individuals fluctuates, not with the variations in the gains and losses of society as a *whole*, but with variations in the gains and losses of a *part* of society. This fact will magnify the total uncertainty concerning individual income, since the gains and losses of each part of the system are likely to vary more widely than those of the whole. For the gains and losses to which the system as a whole is subject is an average of many cases, in which the gains of some will offset the losses of others, and the average will tend to be steadier.[1] This can be illustrated by a comparison of the suffering caused by famines in an age when there are few facilities for communication and transport, and that in an age which is rich in these improvements. Hence the variability in the losses suffered by all the separate parts—whether the losses which are directly risked or the losses which arise from maladjustment—will be greater than that suffered by

[1] This is merely the statistical Law of Large Numbers, which says that the larger the number of cases the smaller the degree of uncertainty. (*Cf.* Hardy, *op. cit.*, 29–31.)

the economic system as a single whole, and the real burden which has to be borne will consequently be increased. It is to avoid this burden that the method of insurance is utilized in an individualist society. But this remedy is of necessity confined to one class of uncertainties alone—insurable ones; and the remedy itself imposes a cost.

Second, there is the case of additional uncertainty as to the course of events, and hence additional possibility of economic maladjustment. This uncertainty will arise, not from imperfect human knowledge as a whole, but from the imperfect knowledge of the individual. This individual ignorance may take many forms. It may exist because the individual cannot afford to avail himself of all the knowledge that is possible. But the most conspicuous form of it is the ignorance of each individual as to the actions and intentions of his fellows, and this assumes a prime importance in a competitive individualist régime.[1] In so far as the course of events in the future is governed by the action of other individuals, the uncertainty of each individual on account of this ignorance is magnified, and the possibilities of maladjustment are consequently enhanced.

This analysis should have indicated that, though the Entrepreneur Function is connected with the bearing of uncertainty, it is connected incidentally rather than essentially; and the importance of uncertainty to the problem and the burden it imposes is not so great as those who generalize uncritically from an individualist society lead one to suppose. The principal elements of this function, as applied to any economic society, will be the capacity for Adjustment and Innovation; and in the case of the latter the ability to make correct judgments as to the future is, perhaps, the most important. The elements which compose this function appear to have an

[1] *Cf.* Hardy, *op. cit.*, 7, 73–5, 391. The effect of this in an individualist society will be considered in more detail below, Chap. 23.

essential unity in the fact that they are concerned primarily with *deciding* things rather than with *doing* things, and must, it would seem, fall in the main on the same group of persons. Any economic society, therefore, if it is to be progressive, will require two main functions, which the composite term *Entrepreneur Function* seems to describe most appropriately.

1. The need (a) so to preserve the balance between producing groups that, in general, the marginal utility of the supply covers its marginal cost; and (b) so to regulate the distribution of economic resources between alternative uses that the marginal yield in all uses is approximately equal.
2. The need to promote such changes in the conditions of supply and technique as to increase the yield of human effort as much as possible, the grouping of resources being speedily and appropriately adapted to such changes in conformity with (1a) and (1b).

Now, an essential condition for the fulfilment of this function is the ability continually to measure and to balance costs and utilities and the habit of so doing. Without measurement of costs and utilities there will be no basis for securing adjustment—there will be no plumb-line by which resources may be adapted to changing conditions. It is, therefore, as a condition of the operation of this function that we find the most significant *rôle* of money in an economic system. Money, whether it be gold or cattle, paper money or Owenite labour notes, has the essential quality of providing a standard of calculation and the means through which buyers measure and express their needs in the course of exchange.[1] As such, its use and the habit of calculating all transactions by its means was an innovation as important as the invention and

[1] *Cf.* G. Cassel, *Theory of Social Economy*, Vol. I, 128 *seq.* :—" Money is primarily a scale of reckoning in which the exchange economy expresses prices."

adoption of the linear measure; and the chief damage which is inflicted by an unstable money-standard is to render it imperfect and useless for this purpose. It must not be imagined, because its usage coincided with the growth of an individualist society that its use is confined thereto; any more than a similar conclusion is justified from the fact that the invention of steam was contemporaneous with the growth of industrial capitalism. In any economic society the use of money as a measuring-rod through the operation of a price system in some form will be required for this purpose, unless that society is willing to sacrifice entrepreneur adjustment altogether. It is habitual to balance in one's mind the utilities of various goods and the costs of various exertions and sacrifices; and the only way in which people's estimates can be discovered is when they express them in the money which they offer for goods or in the money which they demand in payment for the work or sacrifice that is asked of them.[1] To find out what price goods will "fetch" is usually an approximate means of measuring the desire for a thing, in cases where money incomes are equal, and it seems in practice to be the only satisfactory way of doing so. If in the fanciful example cited above, the supreme director of economic affairs had been possessed of a money and price system to guide him, he would not have had to rely on the persuasive charm or arguments of rival claimants, or on *a priori* notions. He would have allotted the capital equipment according to the price offered for it; judging that a high price offered indicated that the products of that industry were selling well and its costs

[1] Where, of course, persons are possessed of different amounts of money, this will no longer be an adequate expression of their real estimation. The *money*-measure of utility and cost will partly be a function of the money possessed. (*See* below, pp. 160–1) It only becomes a satisfactory index, therefore, in an equal economic society. (*Cf.* Wieser, *Natural Value*, 60–2; Birck, *Theory of Marginal Value*, 56–66.) There are also exceptions when people are unaware of what utility they will ultimately derive from a thing, *e.g.*, education.

were moderately low, taking this as a sign that an increase in supply would yield a higher utility to the community.

To be completely successful, an economic society must fulfil both conditions of adjustment and innovation. A society might conceivably perform the first admirably, but be stagnant and unprogressive through failure in the second respect. On the other hand, a society of rapid change and innovation might involve much waste, and fail to be fully worthy of its pioneers, because of its lack of adaptation and adjustment. For instance, the greatest damage which a modern war inflicts is a wrecking of this delicate adjustment, a damage more heavy than the wrecking of towns and the slaying of men and the wasting of the countryside.[1] Every change that is accompanied by uncertainty will involve some departure from the static ideal, and while the change continues the ideal will not be reached; and for this reason caution is needed in condemning in doctrinaire fashion every departure from ideal adjustment or every tardiness of adaptation, since innovation sometimes thrives on conditions of this kind. A balance between the two parts of the composition is of more importance than literal adherence to each separate one. As will be seen later, this consideration is very relevant to the problem of monopoly; for in an individualist society monopoly is usually an offender against the first condition, but may at the same time be a friend to the second. Nevertheless, it will remain true that the system of enterprise is best in which innovation has no need to sacrifice adjustment to its success. But such dynamic issues tempt us beyond our present purpose over the horizon of a yet uncharted sea.

[1] J. M. Keynes, *Economic Consequences of the Peace*, 3–15, etc.

CHAPTER FOUR

Capitalist Undertaking

This Entrepreneur Function, which any differentiated society will need, could conceivably be fulfilled in a variety of ways. How far one or other of them is preferable will largely be a matter of time and varying conditions, and of *ceteris imparibus*; and it is for this reason that a comparative analysis of enterprise requires to stray outside the narrower boundaries of a purely price and value economics.[1] In this chapter three alternative systems of enterprise will be outlined, and then one of them will be described in greater detail in order that we may proceed to a study of capitalist undertaking.

First, the Entrepreneur Function could be fulfilled by a large number of small independent producers (or groups of producers), connected by a number of independent middlemen who operated with fairly small capitals and were in free competition with one another. If at the head of each small group of producers was one who directed the labour of the rest and arranged the sales and perhaps owned the machinery and workshop, he would be unable to secure a return very much larger than that of the other labourers, provided there were few obstacles in the way of the latter setting up in this position if they so desired. The middlemen, being in competition with one another, would be forced to restrain their selling prices to a fairly low level, and they would be unable to secure

[1] For a discussion of these boundaries *cf.* Fetter, "Value and the Larger Economics," *Journ. of Pol. Economy*, XXXI, 6.

a reward above that of the producers, so long as producers were free to set up as middlemen or so long as there was forthcoming from some source a plentiful supply of persons willing and able to take on the work. There would, of course, be certain natural obstacles to free competition: some producers would enjoy special advantages of locality and soil, which others did not share; certain persons would be fortunate in the inheritance of certain rare personal qualities; and this might be expected to cause a certain amount of inequality of income which might tend in the future to increase cumulatively. But this inequality would probably be fairly small as compared with the differences to be found in modern communities, and in its determination social institutions would play little part.

The regulation of production would in such a society take place automatically through the operation of price movements. Middlemen, who would govern their actions by the prices at which they expected to sell, would be the links in the chain connecting consumer with producer and each producer with his fellows. A lowering of the price obtainable from consumers, indicating a smaller or a satiated demand, would tend to be transmitted through the whole chain by means of price changes, until it reached the primary producer. His actions would, in turn, be influenced, since finding a narrowing market he would tend to reduce his demand price for such constructional goods—tools, machines and buildings—as he needed, and for new loans from those who usually adventured their savings in his concern. Each would play his part automatically in the general economic organism, merely by reacting instinctively to any change in price, curtailing or extending his operations as the case might be. It seems to follow, that under such conditions economic welfare would be best served as a rule by a system of free trade within the bounds of the community. Interferences with the operation of the price-principle would hamper entrepreneur adjustment and could only be justified on special grounds.

We find a system which is something of this type in certain sectors of the economic world of the Middle Ages. When markets were purely local, this was usually the kind of relation which existed between the burghers of the town; although in their dealings with strangers and the countryside they sought, by careful market regulations, to turn the rate of interchange to their own advantage. We also find it in the early stage of development of new countries, as in the Middle West of America during the pioneering days; and it usually exists where a population of small peasants predominates, grouped around a number of small rural towns. In many areas of Russia, for instance, where towns are little industrialized, this state of affairs largely exists even to-day; and in South-East Europe it is very common. It is, indeed, to this type of society which Mr Belloc seems to refer when he speaks of a Distributivist Society, and he quotes approvingly Denmark as an example of it.[1] Although in most cases we can see it only in a simple form of society, where economic differentiation has not grown complex, theoretically there is no reason why a highly differentiated community should not be organized in this way. In practice, however, there are certain disadvantages which are likely to attach to it. First, there will tend to be only a comparatively small accumulation of capital and little provision for its productive use. Second, it will incline to be static rather than dynamic, since the interests of the small producers are likely to render them conservative, and there is no economic force which will make for a comprehensive regrouping of resources. But the importance of these

[1] H. Belloc, *Economics for Helen*, 105–6, 108, 124 *seq.*, and *The Servile State*, 57–77. It appears to be this type of society to which Prof. Loria refers as a form of "undifferentiated income" (*Econ. Synthesis*, 78–91).

tendencies will largely depend on other social conditions which this society may nurture. The existence of an ideology and habits of exceptional thrift might entirely obviate the first disadvantage ; and if the society encouraged a stationary or declining population—as there seems some reason to think such communities do—there would not be the same need for rapid industrial progress, as our reckless procreativeness at present imposes on us.

Second, the Entrepreneur Function might be performed by agents of the community, who operated with communal resources on the community's behalf. Producing groups would be captained by persons responsible to some collective body, and these groups would be connected with one another and with the consumers by middlemen who acted as public servants. Their work, for instance, might be co-ordinated by some such machinery as the war-time "programme committees" which controlled the ordering and distribution of foodstuffs.[1] When it became apparent that consumers were no longer willing to purchase available supplies at existing prices, and that to dispose of supplies prices would have to be lowered, it would be the duty of these middlemen to restrict their orders from the producing groups in question. For purposes of measurement and calculation prices would probably be allowed to be freely governed according to changes in supply and demand. If the producers of raw materials found a great increase of orders for their products, they would take advantage of this to raise the price of their scarce supplies, and so conveniently arrange its distribution to the producing groups which were willing to offer the highest price for it.[2] Likewise, it would

[1] *Cf.* J. A. Salter, *Allied Shipping Control*, 167 and 181 *seq.*

[2] The fact that any group was willing to offer a high price would be fair indication that the use of the raw material would be highly serviceable to them, and yield a high utility. This method, therefore, in general would be the most satisfactory way of distributing a scarce supply so that the community could gain the greatest utility from its use.

probably be found convenient to allocate constructional goods between various producing groups by charging a competitive price for their use. Each group, accordingly, whether of middlemen or producers, would be expected to be financially self-sufficient, and to avoid incurring greater costs in its operations than the money return it secured. Some suitable method of taxation would probably have to be devised, to ensure that no group was able to gain additional profit from any differential advantage which it might be fortunate enough to possess; and sufficient central control would need to be exercised, such as control of wages and salaries, to preclude any group from conspiring to profit from the high prices to be gained by restricting output. The problem of assigning a portion of the community's resources each year to indirect production and constructional work would probably be solved on the basis of a calculation as to the relative advantages of goods in the present and goods in the future;[1] and whether this were done by decision of individuals or of industries or of some central body would be a matter of detail and of expediency, not of principle. In such a society there need be no class divisions and little inequality of economic reward, and the keystone of the structure would be the collective ownership of all property that was required for production.

It is difficult to attach to this form of society any specific disadvantages; for there are many different methods by which its administration could be conducted, and its success would largely depend on the success of these administrative arrangements and upon the reaction of the psychology of the people to them. But there are certain dangers to which it is quite definitely susceptible.

[1] The conception of the average *time-preference* of society would here be needed, *i.e.*, the preference which people generally have for present rather than future utilities. It has been suggested that collective time-preference is often lower than individual time-preference. (J. C. Stamp, *Fundamental Princs. of Taxation*, 161–2.)

First, there is the danger, to which we shall later refer,[1] that the administration may be influenced by other than economic considerations to the detriment of the principles of entrepreneur adjustment. Second, owing to the insistence of present needs and the pressure of democracy, too little provision may be made for the future in the shape of development work and indirect production. Third, it might happen that the rate of economic change was slow, either because of the sloth and timidity of the administrators, or because insufficient authority had been delegated to the controlling economic body to enable it to take a bold policy in effecting a regrouping of resources for the improvement of the efficiency of industrial organization. Every such regrouping would, presumably, meet resistance to some extent in the conservative habits of those affected ; and it could only be carried through if the body which had to decide on the change was endowed with sufficient authority to overcome such opposition, and if a sufficient sense of unity and co-operation existed between the administrators and the administrated to reduce such friction to a minimum.[2]

The third way in which the Entrepreneur Function can be performed is that which is illustrated by the present system. Under this system the control of economic operations is in the hands of capitalist undertakers, usually operating with their own capital, and forming, together with those associated with them, an employing class on a higher income level than the rest of the community. These business men fall roughly under three

[1] *See* below, Chap. 22.

[2] Sir J. A. Salter has suggested that the requisite co-operation and unity of purpose can best be obtained by constant association of the representatives of departments in actual planning of work. In Russia under the new state system an attempt has been made to secure this by an exchange of officials from one department to the other as much as is convenient. For discussions of the economics of this form of society *cf.* G. Cassel, *Theory of Social Economy*, Vol. I, 128 *seq.* ; Henderson, *Supply and Demand*, 130–4, 172–7 ; L. Mises, *Die Gemeinwirtschaft.*

heads. There are the numerous agents of the Money Market, who control the flow of capital into production. There are the captains of industry proper, who control the operations of a given producing group. There are the commercial undertakers or merchants, who connect captains of industry with one another and with the consumer. All these persons are concerned with price-relations; and they make their profit, which is their guiding motive, from a difference between two sets of prices which figure to them as costs and as returns. The financier deals in prices of capital; the industrialist is concerned with the price of materials and of labour, on the one hand, and the price of commodities, on the other; the merchant skims the surplus between markets accessible to and markets remote from the consumer. It is this obsession with price-relations, as Sombart has observed,[1] which is the undertaker's most distinctive feature: for him the complexity of economic relations has been reduced by precise measurement and quantitative calculation.

These three systems of enterprise it seems most convenient to describe by the following names:—

1. Classless Individualism.
2. Communism.
3. Capitalist Undertaking.

In the first and third of these there is private property and the motive of personal acquisition—of profit—tends to be the dominant force in economic life. In the first and second there are no class divisions as we know them to-day; and in the second and third there is a greater measure of central control than in the first. It will also be convenient for certain purposes to distinguish a fourth system, which is really a hybrid of two and three. This form, which can be called *Collectivism* or *State Capitalism*,

[1] *Jews and Modern Capitalism*, 160–1.

would still include class division and economic inequality to a considerable degree, while a large sphere of industry was operated, not by individual undertakers, but by the State. This further distinction has some considerable practical importance, as will be seen later, but the details of it need not detain us here.[1]

In considering the third of these systems—capitalist undertaking—we are confronted at the outset by a certain difficulty of definition. If the description of the Entrepreneur Function which was given in the previous chapter is correct, there seems small logical reason to say that those who fulfil it are only a few. Where is the line to be drawn? The work of distributing resources to their most productive uses—is not this done as much by the foreman, or at least by the works-manager, equally with a Leverhulme or a Rothschild? The control over the allocation of capital between industries—why attribute the function of selection more to a firm of promoters than to the shareholders who subscribe the capital themselves? Do not even subscribers to debentures exercise a selection between various firms and industries by consenting to invest in some and not in others? Unless, therefore, one makes the term, undertaker, cover a majority of those connected with production, the definition appears illogical. The cotton operative, who owns a few shares in his con-

[1] There has been considerable confusion among economic writers over this whole matter, largely due to an incomplete theory of the undertaker, as will be emphasized later. The confusion is most marked in the habitual usage of the terms Socialism and Communism. Socialism has been used to denote both systems 2 and 4. Communism, however, has been made to refer, as a rule, to an economic system which does not use the device of money and price. (D. H. Robertson, *Control of Industry*, 129–133; G. Cassel, *op. cit.*, I, 130.) This may describe the doctrines of Anarchist Communism, but it does not seem to correspond to anything that is or is likely to be a serious political reality. The writer has accordingly reserved the word "Socialism" to describe a general trend of political doctrine, and has used the term "Communism," as above, with the distinctive feature of absence of class division. This is the use which von Wieser appears to make of the term. (*Natural Value*, 60.)

cern, together with most of the administrative staff of industry, must, it seems, be classed as capitalist undertakers.[1]

But the difficulty is less serious than appears on first sight. It occurs in a similar way in connection with the abstract factors of production, land, labour and capital; and the functions which these represent seem to spread themselves out in baffling complexity over the real world. But in these cases, when our aim is to study the distribution of income between classes, we have to classify somewhat arbitrarily those as workers whose chief livelihood is in wages, those as property-owners whose main income is in rent and interest: logical subtlety has to be sacrificed a little to practical expediency. In our present case our aim is to find a workable realistic definition, and we can say with F. A. Walker that, "what we need is not a nice theoretical classification, but a just and strong exhibition of the great groups of our modern industrial society."[2]

There are two facts which render the problem of undertaking somewhat different from that of other economic functions. First, undertaking is a compound of several functions—uncertainty-bearing, superintendence, planning, selecting, deciding and so forth—and these can partly be separated in their actual performance and specialized in other persons. Second, in so far as it cannot be separated, it has no convenient measure. A "unit of labour," though an abstract conception, can be made to represent real experience approximately by the method of averaging: labour of average skill and intensity of any one grade can be taken, and then a unit can be secured by supposing this labour to be in operation for a certain length of time. The passive aspect of bearing uncertainty, so far as the range of uncertainty is calculable, can be also treated in this way, a unit being taken as "the exposure of a £

[1] *Cf.* A. H. Willett, *Econ. Theory of Risk and Insurance*, 21–2.
[2] *Wages Question*, 248.

to a given scheme of uncertainty" for a given period of time.[1] But "a unit of enterprise" has no such simple interpretation, and undertaking as a whole cannot be treated in this way. Enterprise is not, like capital and labour, a two-dimensional entity: one cannot measure enterprise even approximately by supposing an average undertaker to be operating for a given length of time.

In the early stages of undertaking the problem was fairly simple, for the whole function was combined in one man, and he secured his income as the profits of his enterprise. The partnership enabled a separation of the man who advanced the capital and bore some of the risk from the man who actively planned and conducted the enterprise; and the profits were distributed in a certain agreed proportion between the two. This dates back to the *Commenda* of 14th century trading enterprise in the Mediterranean, when one man ventured his capital but stayed at home, while the other sailed abroad in active conduct of the enterprise.[2] The organization of the joint-stock company made this separation between the passive capitalist and the active undertaker more complete; and its later development facilitated a further separation. Shares were graded so as to separate the risk-bearing from the riskless, and those who invested in stock of variable yield received a share in the fluctuating gains of undertaking. Further, there was a separation of the detailed work of management and superintendence, paid for by a salary, from the general direction and planning of the enterprise. Mr Flux has said: "The later organization (of industry) separates the remuneration of the manager from that of the owner. The former takes the form of a regular salary. The shareholders as entirely buy out the pecuniary interest of their manager, in the outcome of his work, as he buys out the pecuniary

[1] Pigou, *op. cit.*, 916 *seq.*
[2] W. R. Scott, *Joint Stock Companies*, I, 1–2.

interest of the weekly wage-earner, in return for a regularly recurring payment. Where the manager receives a bonus proportioned to profits, this statement is not entirely accurate, but the payment of a bonus in addition to wages does not destroy the general nature of the wages payment."[1]

But this statement omits to mention that a somewhat similar consideration applies on the other hand to the majority of shareholders themselves. In their case it is not that their "pecuniary interest" is "bought out" for a regular payment; but in return for the payment of a fluctuating interest and the prospect of a few "luck" gains they are willing to leave the active functions of the enterprise in other hands. They will be comparable to the passive partner in the old partnership enterprise; and though they are nominally owners, there will still remain the more essential function of co-ordinating the specialized parts and planning and directing the general scheme of the enterprise.

There seems no particular reason why this work, which is the essential part of the undertaking function, should not be performed by directors who are remunerated by a fee or by a salaried manager and his staff, unless the reason be that men capable and having the opportunity to perform this function are unlikely to be obtainable for a moderate salary when they have a chance of a fortune by performing the function independently to their own gain. In some cases, indeed, this is done, the important work of the business probably falling on the general manager, and the directors operating merely as trustees for the shareholders—the owners. This tends to occur where fairly static conditions exist, where the business has become mainly a matter of routine, the organization "runs itself," and the operation of an existing plan of adjustment is all that is generally needed. Deposit banks,

[1] *Econ. Principles*, 156.

public utility services and railway companies in developed countries may, perhaps, be mentioned as instances of this kind.

Here the various elements of the undertaking function have been entirely separated and specialized, and each separate element has become assimilated to one or other of the factors of production. In consequence, the problem of measuring them and the conception of a demand price per unit has become much simplified. The work of direction and superintendence is seen as a type of skilled brain-work for which a salary is paid—a salary exceptionally high on account of the scarcity of available persons. Part of the uncertainty of the business can be shifted on to insurance agents or underwriters or speculators, to whom an insurance premium corresponding to the actuarial value of the uncertainty is paid. The rest is borne by the shareholders, who expect accordingly to receive a slightly higher average interest on their capital in recompense for the fluctuating character of the return. Uncertainty-bearing becomes assimilated to the provision of capital or waiting.[1]

But in the majority of cases the business does not chiefly " run itself." It needs the leadership and strategy of a general. Conditions are not static, but changing. Fortunes are to be made by pioneering change, by making wise financial judgments and by planning a suitable adaptation of the business to them. In these cases there usually remains an important kernel of the undertaking function composite and inseparable in the hands of one or two men, who have a considerable stake in the business and are intent on gaining largely from the fruits of their activities. This person (or group of persons) may be a prominent shareholder closely connected with the active

[1] This development was noticed by Marx, who indicated that in this way the undertaking function was becoming a social, instead of a private function. (*Capital*, Vol. III, 516–9, 521.)

conduct of the business, and is probably both a shareholder and at the same time a director, influential in the counsels of the company and having a guiding hand in the firm's destinies. In a man of this type we see the whole essence of the undertaking spirit, combining in one person numerous elements of the same function. In this case the work is not susceptible of measurement and must receive treatment in rather a separate category from other economic functions; and since the only unit which can be adopted is the individual undertaker, it seems to be a problem especially suited to be treated as a matter of distribution, not between factors, but between persons.[1] Indeed, it may not be far wrong to suggest that the failure to deal with the problem in this way is a principal reason for the unsatisfactory condition of the analysis of profits in economic theory.

It will be for this class of person, therefore, that we shall reserve the name of capitalist undertaker, while those performing similar work for a fixed remuneration we shall refer to as *undertaking associates* or *salaried undertakers*. Undertakers will be the men who take the ruling decisions in industrial, financial and commercial enterprise. They will perform the composite function of formulating a certain commercial plan and of superintending its execution, of selecting opportunities with an eye to the maximum profit, continually and ruthlessly applying the principle of substitution in all their dealings, and the while facing the uncertainty lest the future may not verify their anticipations. This function the debenture-holders, bond-holders and preference-holders will not perform: the most that they may do is to bear passively a little risk. Nor will much of it fall on the shoulders of the mass of ordinary shareholders. They will treat their

[1] For the difference between the two and the importance of personal distribution *see* Cannan, *Wealth*, 161–208, and *The Economic Outlook*, 219 *seq.*; H. Dalton, *Inequality of Incomes*, 116–8, 138–141, 185–206, 235, and Part IV; also Pigou, *op. cit.*, 701–3.

shares either as a speculative proposition of transitory importance or as an investment yielding a fairly steady rate of interest; but they will in the main take little interest in the administration of the business itself. The problem of finding the undertaker is, indeed, not a little similar to the puzzle in politics as to where political power resides. Sidgwick has pointed out that the possession of nominal power is not the same as the possession of actual power, and that power possessed is not necessarily power exercised.[1] It is the same with the shareholders of a company: they possess the power, if they choose, to control the policy of the company; actually they do not exercise it for the most part except in an emergency, and frequently allow it to be exercised by others by means of the "proxy vote." Few except those who are in intimate touch with the conduct of the business can initiate policy; the shareholders are scattered and unlikely to act in consort; and the power of the mass of the shareholders is consequently reduced most generally to a mere negative veto on policies inaugurated by the directors. In most cases voting rights are confined to ordinary shareholders; and of these shares the majority in numerous cases are held by a few. In America, as a rule, only bonds and preference shares are issued to the public, the common stock, carrying voting power, being issued to the promoters or to the few who wish for control.[2] Writing of American conditions, Mr G. P. Watkins has said: "In many corporations the directorate is practically chosen by co-optation (perhaps under banker dictation), though the self-perpetuating oligarchy is tempered by provision for revolution";[3] and Mr F. H. Knight declares that the

[1] *Elements of Politics*, 627–631.

[2] Knoop, *American Business Enterprise*, 21–3, 27–9; also Flux, *op. cit.*, 58; Meade, *Corporation Finance*, 36 *seq.*; J. Sullivan, *American Corporations*, 153–160.

[3] *Quarty. Journ. of Econs.*, XXXVI, 682. Also *cf.* W. H. Lyon, *Capitalization*, 79–82, who says that a holding of ¼ to ⅓ of the shares suffices generally to give control, and sometimes a holding of only ⅕.

shareholders as a rule are " merely creditors " and " the great companies are really owned by small groups of men."[1] This, though less true, holds good for Britain as well; and in practice it is not difficult to single out as a comparative few the undertakers who actually control industrial policy and who have the decision on all matters of importance. There are, of course, cases where the mass of shareholders play a more active *rôle* and where the work of undertaking is consequently more diffused. But these cases do not seem on the whole to be very numerous, and the extent to which each shareholder in such cases performs the function is so small as to be negligible for most purposes in comparison with larger undertakers.

The first of the three main groups among undertakers, which were described earlier in the chapter, is the *industrial undertakers*, who captain a given range of productive operations. In a one-man business or small partnership they are not hard to distinguish; but in the big company it is more difficult to discern clearly where the main responsibility for policy lies. In the majority of the most important enterprises, however, they are usually a small group among the directors or the largest shareholders or both; and these are clearly separate from their salaried managers, on the one hand, who execute their policy, and from the mass of shareholders, on the other hand, who have little real part in the guiding of the company's destinies.

Second, there are the *financial undertakers*, who control the distribution of capital into various uses. These are the promoters and finance houses, the trust and investment companies of various kinds, and, in addition, numerous independent financiers who operate on their own, often in groups, but do not necessarily specialize in any one sphere. In America there are such houses as J. P. Morgan, which played a large part in the formation of

[1] *Op. cit.*, 359.

the United States Steel Corporation.[1] In Germany there are the commercial banks, such as the Deutsche, Dresdner, Disconto Gesellschaft, the Darmstädter, which were responsible for the promotion of most of the big industrial enterprises in Germany since its unification.[2] In France there is the Crédit Mobilier and L'Union Parisienne. In London there are financial houses like the Johannesburg Investment Co., the Burma Corporation, the Burlington Investment Company; there are promoting firms like George Clare, Sperling Bros., D'Erlangers, Morgan Grenfell & Co., and Lee Higginson; numerous powerful houses engaged in foreign investment business like Lazard Bros., Rothschilds, Kleinworts, Stern Bros., and more-specialized enterprises like the British Trade Corporation. We see a type of the independent financier, engaged in many enterprises, in the late Sir Ernest Cassel. Here, too, there is no very distinct line between the prominent persons who play the most active part in these concerns, and the ordinary investing public, which to some extent may be said to exercise a selection as between different investments. But in recent years the scope for the independent judgment of the small individual investor has been narrowed by the growth of investment companies; and the ease with which the public can at times be seriously misled by bad advice and by manipulations seems to suggest that the initiative of the general mass of investors, possessed of little expert knowledge, is in actual practice very small.

Third, there are the *commercial undertakers* who organize marketing operations, plan and control the distribution of finished goods to consumers, of raw materials to producers, or partially-produced goods to other producers; and in ordering stocks in advance and then selling them where best they can, they are running the risk that their anticipa-

[1] A. Berglund, *The U.S. Steel Corporation*, 77.

[2] *Cf.* Riesser, *The German Great Banks and their Concentration*, 63, 136–174, 417–495, etc.

tion of market prices may be disappointed. Of this kind are the various Liverpool and Manchester firms of cotton merchants, and the numerous merchant firms in the City of London, which are often old-established family partnerships that thrive on the "goodwill" of an extensive connection with specific markets. In the history of undertaking enterprises of this type were of great importance; they were the bold pioneers of national greatness and of widened markets like the Merchant Adventurers and the Tudor trading companies, and one of these, the Hudson Bay Company, has continued its operations up to the present day. Since the eighteenth century, however, the importance of specialized merchant enterprise has declined relatively to industry and finance, and the concentration of industrial control has partially eliminated the independent middleman in some branches of business.

These three groups of undertakers have in the past been fairly rigidly separated, and their interests have often diverged and conflicted fundamentally. But during the last fifty years there has developed a considerable integration and overlapping between them. Financial groups, especially in Germany, have tended to control as well as to promote industrial enterprises.[1] Mr J. P. Morgan and his colleagues, who not only promoted but continued to control the U.S. Steel Corporation, combined the functions of financial and industrial undertaking.[2] On the other hand, some industrial combines build up reserves in order to do much of the financial work of acquiring and promoting new firms on their own account; as, for instance, in this country Vickers Ltd., which owns the Metropolitan Finance Company. In Germany the late Herr Stinnes is

[1] D. H. Robertson, *Control of Industry*, 81–3.

[2] At the outset only a third of the Board of Directors was concerned in steel. The Bankers were represented by J. P. Morgan himself, G. C. Perkins, and Robt. Bacon; and the Rockefeller group by Rockefeller and H. H. Rogers. (Berglund, *op. cit.*, 77.) Dr R. Hilferding has given to this form a name in his *Finanz-Kapital*.

said to have been in process of taking control of banking organizations.[1] In France there appears to be close connection between the *Union Parisienne* banking syndicate and the chief firms in the iron and steel industry which are federated in the *Comité des Forges*.[2] In other cases industrial concerns often control their own marketing organizations, as in the example of the Cartel. Vickers Ltd., controls subsidiaries in numerous foreign countries. The Standard Oil Company controls 69 per cent. of the American distributing and marketing agencies for oil.[3] But in spite of these tendencies there is sufficient separation between these three kinds of undertakers to justify a classification of them in this way ; and there still occur conflicts of interest between them of considerable significance. For instance, the recent differences of opinion between the Federation of British Industries and the bankers of the City of London on monetary and banking policy illustrate this divergence ; and there are examples even of differences between groups of industrial undertakers themselves, as between heavy industry and finishing industry in Germany on the matter of tariffs and inflation,[4] or between the cotton group and the iron and steel interests on the issue of fiscal Protection for the United Kingdom.

It will also be convenient for our purpose to make a distinction of a different kind ; and this, which is not intended to be rigid, but merely one of degree, will dis-

[1] M. P. Price, *Germany in Transition*, 72–3.

[2] Delaisi in *Manchester Guardian Commercial*, May 13th and July 12th, 1923.

[3] Davenport and Cooke, *Oil Trusts and Anglo-American Relations*, 81–5.

[4] Before the war these appear to have been represented respectively by the *Zentralverband der deutschen Industrie* and the *Bund deutscher Industrieller*, the former tending to advocate a high tariff and the latter tending to favour low tariffs. This seems to be paralleled since the war in the rivalry inside the *Reichsverband der Deutschen Industrie* between the Rhine-Elbe Union and the A.E.G. Inflation *v.* stabilization seems to have been an important issue in this latter case. (M. P. Price. *op. cit.*, 73–5.)

tinguish some undertakers from others in the same group. In many industries we find a certain number of large firms with control fairly centralized, and alongside them a larger number of quite small enterprises. In a review of the undertaking function the former will clearly be of greater importance, for their actions will cover a wider sphere of operations, and their control over the market may be so considerable that their smaller rivals in general merely follow their lead. For instance, there are about 220 soapmakers in this country, and of these only 90 are members of the U.K. Soap Manufacturers' Association; yet the Association controls 80 per cent. of the total output. And whereas out of the 90 firms only 37 belong to the Lever Combine, this latter controls 90 per cent. of the output of the Association and fixes prices.[1] In the production of copper there were said to be 1,848 mines at work in 1916. But of these 31 mines produced 85 per cent. of the output; while "even among these large producers control is concentrated in few hands, as four large groups hold controlling interests in a number of smaller companies," and control smelting plant and selling agencies.[2] Again, the Standard Oil Company controls only 21·3 per cent. of the crude oil output of the United States, while 38·1 per cent. is produced by large independent companies, and as much as 40·6 per cent. is left to numerous smaller undertakings. Of the oil-refining business, however, Standard Oil controls 43·8 per cent., and of the pipe-lines and marketing organizations it controls 69 per cent. and the large independent companies nearly 30 per cent. As a result one firm, and in it a comparatively small group of persons, dominates the whole market, and the smaller companies, though large in number, are mainly forced to

[1] J. Morgan Rees, *Trusts in British Industry*, 140.
[2] D. C. Morison on "The Recent History of the Copper Trade," in *Economica*, Nov., 1924.

follow its lead.[1] Although these are extreme instances, the same principle is to be found elsewhere. In the financial world the small firms and independent agencies may be very large in number, and there will be a multitude of shareholders endeavouring to direct their investments into the most profitable channels. But the most important *rôle* will in all probability be played by a relatively small number of large concerns, and it will be these to which we shall have to pay the most attention in a consideration of the undertaking function. Accordingly, for the sake of convenience, we shall adopt a somewhat rough and arbitrary classification into *major undertakers* and *minor undertakers*. And this verbal classification may not be useless, if it serve as a reminder that an increase in the number of undertakers is not inconsistent with a concentration of the undertaking function and of economic control—a point on which obscurity has often bred not a little controversy.

[1] Davenport and Cooke, *op. cit.*, 81–5.

CHAPTER FIVE

PROFIT THEORIES

THE way in which the capitalist undertaker secures an income from society is an important part of an analysis of that system of enterprise. Not only is there importance in knowing whether the profits acquired by the undertaker are wasteful generosity by society to a favoured few, or a wise investment in a service which society could not otherwise obtain, but the manner in which the making of profits is governed may seriously affect the attitude of various economic groups to one another and to social institutions. We find, however, when we approach the matter, that there is no simple solution waiting upon our questions. We discover, instead, that the theory of profits is still, perhaps, the darkest part of the whole subject of economic distribution. And though a voluminous controversy has been waged on the matter in America during the last thirty years, a body of agreed opinion is still lacking, and little has been done to erect a synthesis from the various partial explanations of a perplexed and perplexing subject.

One explanation—and the simplest—starts by treating "undertaking" as a productive "service" analogous to the services of labour, land and capital. "Undertaking" it generally regards as a service compounded out of the other three, with the addition of uncertainty-bearing. Profit is then analysed as a payment for this compound of services, including a premium for the risk and uncertainty involved. This, for instance, was the view of J. S. Mill, who regarded profit as a payment of interest, insurance and wages of superintendence, in reward for "abstinence, risk and exertion."[1]

In so far as the various parts of the undertaking function are in practice separable and can be specialized in different classes of shareholders and in directors and managers, this explanation appears helpful as a first step. One can plausibly claim that the net gains of the business resolve themselves into interest plus insurance premiums to shareholders and salaries to managers and directors. These payments will be governed in the ordinary manner by supply and demand ; and the competition of investors on the one hand, and of directors and managers for employment, on the other hand, will tend to keep these payments at a minimum—the minimum necessary to secure these services for society. But a little thought will show that this explanation is singularly incomplete. What factors determine how large the earnings of management and direction will be ? What of the abnormally high profits which are often earned if the company prove prosperous ? Are they not to be included in a theory of profits, especially since by increasing the capital value of the company and the private capitals of shareholders, these gains may be of permanent, not merely transitory, importance ? The principal criticism, indeed, of the method of treatment

[1] *Principles*, Vol. I, 495 *seq*. A similar view was expressed by Fawcett, *Manual of Pol. Economy*, 146–9. Marx criticized this view, claiming that there was a surplus in undertakers' profit over and above wages of management, only part of which would be shared with the passive investor according to the supply of and demand for investible capital. The chief source of demand, however, for the latter lay in the profitability of undertaking ; and "the maximum limit of interest" could be defined as "the entire profit minus . . . wages of superintendence. The minimum limit of interest is wholly undefinable. It may fall to any depth. But counteracting circumstances will always appear and lift it again above this relative minimum." He also declared that part of wages of superintendence was a cost peculiar to a system based on antagonism between master and labourer, "reaching its maximum in the slave system," and being comparable to the wage of an *epitropos* or feudal *régisseur*. (*Capital*, Vol. III, 421–59.)

which this theory adopts seems to be its undue concentration on the qualitative similarity of profits to other economic payments, to the neglect of the more important quantitative problem: what governs the *size* of the undertaker's income relatively to other incomes? In common with most analyses of distribution in terms of abstract factors or services, this theory is incomplete, because it tends to omit considerations affecting the amount of a service which an individual is able to perform, and to neglect considerations which influence the supply of the service by affecting the persons from whom the service comes.

In practice, however, as the previous chapter has shown, the important parts of the undertaking function in a majority of cases are not separable, but are combined in a few men. There is no reason to assume that the price of the composite function will be equal to the sum of the prices of its separate parts—that profit will equal gross interest plus wages of management. If this assumption is unwarranted, then the profits of the undertaker are governed by separate factors which demand separate investigation. What seems chiefly to have obscured the issue and confused its treatment is the fact that in any one business at any one time, the amount of undertakers' capital being given, the income of undertakers will be mainly governed in the same way as the income of the passive shareholder. Both will receive income as interest on invested capital. But so also rent assumes for the landowner the character of a mere interest-yield on the capital value of the land; yet that is not made a reason for omitting a separate treatment of rent of land. The problem of profits from the point of view from which we are considering it is concerned with the gains of undertakers, considered as a whole over a period of time; and into this problem the possibility of gains through increases in capital values is of particular importance. *Capital* *increment* becomes as important in a theory of profits as land-value increment is in the theory of rent. The question, therefore, presents itself as: how do the gains obtainable from applying one's capital and one's abilities to undertaking compare with the gains obtainable in other occupations? And this problem seems to be most conveniently approached from the point of view of the income of persons, with a representative undertaker as the unit. To America's conditions, indeed, this method of treatment seems especially appropriate; for the common stock with a fluctuating dividend is fairly generally concentrated in the hands of the few who actively control the policy of the business, and is often at the outset pure "water."[1] In this case the common stock is seen quite clearly as undertakers' capital, the yield on it as profit, and changes in its value as the capital increment which is part of the gains of undertaking.

A second type of explanation, avoiding the particular difficulties just mentioned, has tried to assimilate the problem of profits to that of economic rent. Undertakers, like land allotments, are of varying degrees of efficiency and productiveness. If the undertaker, who combines several functions, receives a reward which is greater than he could get separately as an investor and a salaried manager, this must be due to the special advantages he gains from the composition.[2] The marginal undertaker, then, will be the man whose special advantage is so small that he is on the margin of doubt whether to set up as

[1] Knoop, *American Business Enterprise*, 27–9. In so far as this stock is "water," the undertakers will receive profits without necessarily risking anything except, perhaps, their reputation. This should be sufficient to show the incorrectness of the view that profit is merely a payment for risk, or that risk-bearing is the essential feature of the work of undertaking.

[2] Profit "is the reward that comes to the entrepreneur on account of the special advantages to which he has to use his talents and employ his capital from the fact that he is both a labourer and a capitalist." (J. Haynes, in *Quarty. Journ. of Econs.*, IX, 409.)

an undertaker on his own, or whether to hire himself out for a salary or wage and to loan his capital at interest ;[1] and it will follow that the profits of the supra-marginal man will arise from the extra advantage of his combined function : it will be measured by the *difference* between his productivity and that of his fellows who tighten their belts on the margin. This type of theory was first given popularity by the emphatic exposition of F. A. Walker.[2]

As a first approximation to the matter this may, indeed, be satisfactory ; but from being a complete analysis it is very far. The conception of a marginal undertaker is not an easy one. Is he a small shopkeeper who doubts whether to live on the profits of his enterprise or to invest his money and seek employment ? Or is he the son of a successful business man, who on the eve of farewell to his university ponders whether to adopt the career of a barrister or civil servant or to follow in his father's footsteps ? May there not be a margin both among major and minor undertakers and, if so, how explain the relation between the two ? Again, the "advantage" of the supra-marginal man is a term that covers a multitude of virtues ; and may it not on analysis prove to mean simply the ability to earn a profit, whether because of absence of competition or for any other reason ? The term may indicate, but it certainly does not establish an explanation. Further, it leaves the main causes of the size of profits yet to be explained, and into this vacuum a prevalent error makes haste to enter. This is an error that is common in dealing with the idea of differential rent, and is simply the mistake of treating the margin as a *determining* factor in the problem, instead of as a *determined* factor

[1] He will be a "no-profit" undertaker, parallel to the "no-rent" land, because what he receives is only just equivalent to what he could receive if he separated his functions. Prof. Davenport defines profit as "the reward of the self-employed worker." (*Econs. of Enterprise*, 66.)

[2] *Political Economy*, 236–44. *Cf. also* Pantaleoni, *Pure Econs.*, 278–284.

which merely focuses the operation of the real causes.[1] The margin is only where it is because of the scarcity of the supply of superior units. The marginal undertaker is only on the margin because of the relative scarcity of those superior to him. He would not be needed, and would be "squeezed out," if superior undertakers were more plentiful. In the analysis of rent of land the point is not of great importance, because the limited supply of superior land is clearly due to the restraints of nature's bounty. But in an analysis of profits the cause of the limitation of superior undertakers is the crux of the whole matter. To say that an undertaker's profits are determined by the difference in his efficiency from that of the man on the margin is not to solve the problem. It merely introduces the question: what is the cause of the scarcity of efficient undertakers which fixes the margin where it is? Presumably, if good undertakers were as plentiful as sand on the sea-shore, there would be room for none but the efficient, and profits would be at a "sweated" level.

This misapprehension about the importance of the margin, though elementary, has been surprisingly prolific. The common fallacy that defines the "productivity" of an agent by the income it is able to secure, and then seeks to explain this income and even to justify it by this productivity, shows itself here resplendent and unashamed.[2] To one writer we are indebted for the conclusive aphorism that "superior ability creates profits."[3] Prof. Kirkaldy would have us believe that "the large profit made in the

[1] *Cf.* Marshall, *Principles*, 423–4; *also* G. Cassel, *Nature and Necessity of Interest*, 81–2; Davenport, *Econs. of Enterprise*, 94.

[2] This error is freely committed by Prof. J. B. Clark, who explicitly uses his theory of marginal productivity as a *justification* of existing distribution. (*Distribn. of Wealth*, 8–9.) *Cf.* the remarks of Prof. Edgeworth on this error (*Papers*, Vol. I, 29, 52–3).

[3] A. Crew, *Economics for Commercl. Students*, 110. The statement finds its contradiction, however, on the next page in the admission that "opportunity is an important element and the man who seizes it only does what a thousand others would do if it came their way."

production of staple commodities under competitive conditions is the result of successful organization, and is not due to the manual labour employed, nor does the consumer pay for them in the price of the commodity."[1] Similarly, Mr. Flux tells us that "the capable entrepreneur reaps a reward corresponding to his superiority over less capable men with whom he is in competition. He does not secure his gains at the expense of labour or capital."[2] While Sir J. A. R. Marriott, more self-confident than, perhaps, he has good reason to be, declares dogmatically that "increased profit, be it large or small, represents and rightly rewards the differential skill of the entrepreneur."[3] But these easy conclusions are not justified by a rent theory of profits, if properly expressed and understood. They seem merely to be ethical importations into a misunderstood conception of the "margin." For the margin by which "superiority" is measured is itself a dependent factor in the problem—dependent on the available supply of undertakers.

Third, we have Prof. J. B. Clark's Dynamic Theory, in which profit is dignified with a special place as a "residual payment"; and his productivity theory of distribution and the verbal confusions which hang on its fringe are reserved for the factors of production. In this Professor Clark has been father to a school of theory of much

[1] Kirkaldy, *Wealth*, 137–8.

[2] Flux, *Economic Principles*, 153. For much of this confusion F. A. Walker was himself responsible. He asked the question: "Are Profits subtracted from Wages?" and answered it emphatically in the negative (*op. cit.*, 240–1).

[3] *Economics and Ethics*, 146. The confusions resulting from the use of these words "superiority," "productivity," "create," "due to," "paid for," "at the expense of," etc., simultaneously in two or more distinct meanings is an interesting illustration from economics of the thesis expounded by Ogden and Richards in their *Meaning of Meaning*, that a large number of philosophic errors have their roots in a loose usage of words. Prof. Fetter seems to steer very close to this confusion when he says that profits are determined by the undertaker's "contribution" to industry (*Princs.*, 291), as does also Prof. Seager in his "justification" of profits. (*Brief Economics*, 455–6.)

influence and popularity in America. His theory makes the function of the undertaker quite distinct from that of the investor or the risk-bearer, and from the labour of management and superintendence. It is *par excellence* the function of the pioneer—of effecting changes in the economic organization and adapting resources to them. Essentially it is a dynamic function which is not to be found under static conditions. Profit, therefore, is the excess of the undertaker's earnings over and above his possible alternative income—what he could receive separately as interest on capital or as wages of superintendence. It is purely the child of change, in the course of which the undertaker as a lone pioneer enjoys a position of monopoly, free from the competition of his fellows. This condition, however, passes, and as the change becomes a thing of the past, the competition of those who succeed the pioneers forces him to part with his profits to the rest of the community; and this he does either directly in higher wages and interest, or indirectly through lower prices to consumers. Profit is the legacy of change, and in turn its incentive, and is due to the economic friction which puts the pioneer in a temporarily privileged position. "Profit," Prof. Clark aptly expresses it, "is the universal lure that makes the competition work; and the ultimate goal of the whole movement is a no-profits state."[1] Recently Mr. F. H. Knight has supplemented the theory by the suggestion that the change which breeds profit is change which cannot be foreseen.[2] If it can be foreseen it will be discounted in higher costs beforehand: increasing competition to take advantage of the change will force lower selling prices or higher payments to the other factors of production.

This theory shows a distinct advance on the earlier rent

[1] Clark, *Distribution of Wealth*, 111, 179, 290–2, 400–410; A. H. Willett, *Econ. Theory of Risk and Insurance*, 11–24; Seligman, *Princs.*, 355–6.

[2] F. H. Knight, *Risk, Uncertainty and Profit*, 35–8, 46–8, 264 *seq.*

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theory, and seems to mark out fairly clearly the important guiding lines of the problem. Nevertheless, it still leaves much unexplained. In citing "friction" as the cause of the temporary advantage in which change places the undertaker, it touches merely the hem of the subject; and to explain this friction as due to the uncertain nature of the change reveals little more than the other side of the hem. "Friction" seems to cover a number of possible factors; and there seems no reason to assume that the uncertain nature of the change is the only or chief of them. To determine which of these possible factors are the important ones is an essential part of any complete analysis. For instance, is it merely the natural obstacles which always have to be overcome before resources can be moved from one use to another? Or is it that changes which can be foreseen and calculated by undertakers are hid from others, or, at least, can only be seen by them much later? Or is it the existence of factors which hinder the entry of new competitors? Moreover, the conclusion which Prof. Clark assumes to follow from his theory, that profits continually tend to be distributed over the community, and so are only of transitory or "short-period" importance, seems to be incorrect for reasons which will be discussed in the next chapter.

As one might expect, it has been Dr. Marshall who has been most successful in harmonizing the various elements, classical and modern. This he has done by his emphasis on the distinction between the forces of the short period, and those forces which only come to maturity in the long period. On the one hand, it is true that, if a section were cut across the economic world at any one time, one would find the rent explanation of profits approximately correct. Some firms would be seen struggling on the margin to maintain their solvency, perhaps being unable to cover their costs with their returns. Others more favourably placed, with advantages of technique and in the pride of name and goodwill, would be securing a higher profit, measured by the differential advantage which they possessed as compared with those less fortunate on the margin. This profit he termed a *quasi-rent*. On the other hand, this quasi-rent, the determined factor of the short-period view, becomes in the long period a determining factor in the supply of new undertakers. The potential competitor, who ponders whether to enter this line of business or refrain, will make some rough estimate of the profit which he can expect, and into this calculation will enter the gains of fortunate and unfortunate, of fat years and lean. His decision will depend on whether this average profit suffices to balance for him the risk and the trouble and the sacrifice of other opportunities which his choice will involve. "All his prospective gains enter into the profits which draw him towards the undertaking." If average profits—the quasi-rent of the short period—are high, the competition of new undertakers will be large, there will be a readjustment of the margin and of the market price, and a reduction of the profits of those undertakers who were temporarily privileged. In the long period, therefore, profits will have had time to influence the competition of new men, and so be a factor indirectly affecting market price. Normal profits will "enter into long period supply price" of commodities. They will not be a surplus, but will tend to that level which is just sufficient to attract the requisite competition. If for any reason they rise above this level, they will be themselves the principal factor in attracting competition, and so eventually in reducing profits to the normal level again.[1]

Now, this analysis has given good reason to suppose that on the average profits will be governed by the supply-price of undertakers—the price, that is, which just suffices to attract a given number of competitors and no more. Competition adjusts the level of profits just as it adjusts

[1] Marshall, *Principles of Economics*, 596-628.

the level of wages; and, accordingly, to this view profits cannot be classed as a monopoly payment. Only in the short period, when supply of undertakers is for the time being fixed, can profits be likened to rent of land—a payment bearing no relation to the "cost" incurred in procuring the supply. A little thought, however, will show that this is not the whole of the matter. In comparing the income to be obtained from undertaking with the income to be obtained from wage-earning, the fact that the supply-price of undertakers (the price necessary to procure the supply) is many times greater than the supply-price of wage-workers is quite the most important consideration. It is much more important than the question whether in either profit or wages there may be a surplus in the nature of a rent—a surplus of demand-price over supply-price. In the theory of profits, therefore, the most important consideration is not whether demand-price and supply-price tend to coincide in the long run, but what factors govern the supply-price itself. If the price has to be a high one to stimulate fresh competition, the profit-level will tend to be high, whereas if a quite low price suffices to attract new men, the profits of undertaking will be kept equivalently low.

Into this other half of the investigation Marshall leads us scarcely further than the threshold. After calculating profits according to a rate on capital, either per annum or on business turnover, he points out that a higher profit is to be expected in industries which involve large uncertainty as well as in those where the work of management is arduous. More generally, the supply of undertakers will be affected by the scarcity of requisite business ability, by the fact that sufficient inducement will be required for people to invest in the education and training necessary to fit the business-man for his work, and by the aversion which is habitually felt towards uncertainty of income. In some cases the supply of undertakers is limited by the existence of monopoly, but, as a rule, competition will operate fairly effectively in eliminating any abnormal surplus profit. Making allowance for differences in the nature and attractiveness of undertaking in different occupations, there is a fair tendency for profits to seek equality in a general average rate.[1]

With reference to this theory, which is illuminated by remarkably acute insight into business methods, two considerations seem pertinent. First, no calculation of profits that is completely satisfactory can be obtained on a basis of a percentage rate on capital. For the value of capital is itself governed by the income it can earn, and in the long run the capital of a business or of an undertaker will usually be merely the capitalization of the expected profit at the prevailing rate of interest.[2] This fact, therefore, is alone sufficient to account for any equalization of the percentage *rate* of profit ; and Dr. Marshall's theory merely tells us that the tendency for the capitalization of profit operates very generally. The chief importance of Marshall's remarks on this point is to show that this capitalization will be made at different rates in different cases, according as different rates of interest in different circumstances are expected by investors. But to the total income which an undertaker can expect to obtain in an occupation the prevailing rate of profit is not necessarily a satisfactory guide; for in treating of the profit per undertaker the possibility of capital increment needs also to be taken into account.

Second, the chief consideration in finding the cause of the supply-price of undertakers, and hence of the level of profits in general and in particular industries, is the ease

[1] Marshall, *Principles of Economics*, 610–24. It is not always easy to disentangle factors which cause demand-price to remain in excess of supply-price and those which make supply-price high. Dr. Marshall does not seem to draw a perfectly clear distinction between them.

[2] *Cf.* Irving Fisher, *The Rate of Interest*, 14–28, 229–230 ; T. Veblen *Theory of Business Enterprise*, 137–145.

or difficulty with which new undertakers are forthcoming—the limitations on their supply. If the supply of new undertakers can be increased with ease, any small rise in profits will summon such large competition as to reduce profits speedily. But if new undertakers are difficult to obtain, the competition which is tempted by a rise of profits will be much smaller. Hence, the chief objective of an analysis of profits must be to find what manner of limitations on their supply determines the level of the supply-price of undertakers; for, the highness or lowness of this price may be more important than whether profit contains a surplus above supply-price or not. In such an analysis the most convenient unit seems to be a *representative undertaker*—an undertaker starting in business with average ability and with an average amount of capital. Accordingly, in the chapter which follows the problem will be treated as a problem of limitation—limitation of persons suitably equipped to fill the *rôle* of capitalist undertaker.

CHAPTER SIX

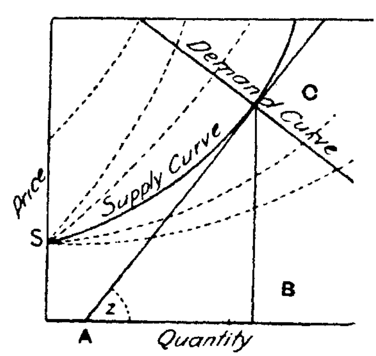
THE PROFITS OF UNDERTAKING

IN the closeness of our attention to the limitations on the supply of undertakers, which affect the supply-price and hence the level of profits, we must not be induced to forget that there are factors on the demand side of the problem which need also to be taken into account. We must not forget that, as Prof. Clark's theory emphasizes, the opportunity for undertaking is by no means a constant thing, and may vary rapidly from time to time. It may vary through the altered course of economic change, or because existing undertakers in their attempts to oust their rivals may purposely sell their goods at a loss and generally "spoil" the market. It is only on the assumption, however, that the opportunity for undertaking remains at a certain constant magnitude, that we can regard the supply-price of undertakers as the factor which determines the level of profits. For the present, accordingly, we shall make this assumption, returning to grace it with more careful attention in due course.

Now, the supply-price of a personal service is that which just suffices to attract a certain quantity of supply, and it is likely to increase as the quantity required increases. For purposes of exposition we can imagine the supply-prices of various quantities joined together and the whole series treated as a supply-curve. This curve may start its ascent at a low price or at a high one, and its slope may be steep, or only a gentle incline. The starting-point of this curve—the price necessary to call forth the smallest quantity of supply—we shall call the *Minimum Supply-Price*. The term *Facility or Response of Supply* we shall use to describe the steepness of the slope of the curve. If the slope is gradual, we shall speak of the Facility of Supply as large, since every rise in supply-price summons a large competition of new supply in response ; whereas, if the curve ascends relatively steeply, we shall speak of the Facility or Response as being small. It will follow that the greater the Minimum Supply-Price and the smaller the Facility of Supply, the higher will be the price necessary to summon a given amount of competition, and the higher in consequence will the level of profits tend to be.[1] To decide that profit is influenced by responsiveness of supply is, therefore, to approach the problem, but not to solve it. It still remains for us to discover what degree of response there may be.

In the determination of the minimum supply-price of undertakers, three chief factors can be distinguished as

[1] The *Facility of Supply* will be the ratio of the responding increase of supply to a given increase in price. Expressed graphically, it is the cotangent of the angle, marked z, in the diagram below, *i.e.*, $\frac{AB}{BC}$. The starting point of the curve, marked S, will be the *Minimum Supply-Price*, the slope of it at any point its Facility. The smaller the Facility and the higher the Minimum Supply-Price, the larger the price at which any given Demand Curve will be intersected by the Supply Curve. As the Facility gets so small as to approach zero, the conception of a Supply-Price becomes inapplicable : supply can be regarded as fixed, and demand to play the decisive *rôle* in determining the price of sale. It is to this payment that the term Rent is usually given, but it will be clear that the difference between Rent-elements and those governed by Supply-price is only of degree. It will also be noticed that Facility will be relative to the size of the units of the thing in question. The difference between Facility and Elasticity will be, therefore, that the former expresses the *slope* of the curve and $= \frac{dx}{dy}$; whereas Elasticity $= \frac{ydx}{xdy}$.



tending to make that price somewhat high. *First*, undertakers will not enter a line of business unless their reward will at least cover the interest they could have obtained by acting as a passive investor elsewhere. Consequently, in industries where the representative undertaker needs to start with large capital, the minimum supply-price will be equivalently higher than elsewhere.

Second, money has to be spent on *education* or *training*, or has to be advanced during a period of lengthy probation; and as a result there will be a distinct aversion to enter upon a business career unless the profit that can be expected will compensate for the cost of this preliminary outlay. This outlay can be regarded as a capital investment, which will not be undertaken unless the profit to come in the future promises to yield interest on the sum advanced; and this will be required over and above the interest on such capital as the undertaker may himself employ in the business. On the whole, however, this factor has probably been exaggerated. Most parents of the middle class are governed more by a sense of duty and by general conventions in deciding on the education that it is appropriate to bestow on their children. In the case of those persons of the lower middle class who are anxious to advance themselves in the social scale by starting their sons on a business career, a similar consideration will probably apply; and even if their actions are governed by the prospective income of their children, their demand for money-income is probably so little elastic as to make a fall in profits a very small deterrent to their actions. More likely is it that this factor will have importance in limiting the supply of undertakers to those sufficiently prosperous and of sufficiently low time-preference to enable them to incur the burden of this outlay; but this will not affect the minimum supply-price: it will cause the facility of supply of new undertakers after a point to become small.

Third, undertaking will generally involve an *uncertain*, or at best a *fluctuating income*, and undertakers will consequently be deterred from entering it unless the average profit that past experience has led them to expect exceeds the income in more certain occupations. It is probable, however, that there will always be some daring spirits whom uncertainty will deter little and whose appetite may even be whetted by the air of adventure and vague possibility it imparts. This factor, also, seems more important in causing the supply of undertakers subsequently to become unresponsive, as resort has to be made to more cautious temperaments and to poorer persons on whom a given uncertainty weighs much more heavily.

Accordingly, our interest turns to the factors which make the facility of supply of undertakers fairly small—at any rate after a certain point—and cause it to get gradually less. The existence of these limitations means that higher profits can be obtained than would otherwise be the case without attracting sufficient competition of new undertakers to modify the prevailing gains.

First among these other limitations is the possible fact that *the supply of the ability necessary* for the work of business administration is definitely *limited by nature*. Such ability, being inborn, is confined to those persons on whom the laws of heredity have smiled ; and as a result it will be difficult after a point to obtain additional undertakers who can match in competition the ability of those already active and successful. This, too, however, seems to have been given too great prominence by most economic writers, and is probably of less importance than the fact that many who possess the ability lack the opportunity to exercise and develop it.

Second—a factor to which we have already referred—the supply is limited because relatively *few can afford the initial outlay in education and training* and in the period of probation before business earnings appear. Outside this class poverty breeds a high time-preference, which will require a correspondingly high inducement for supply to be drawn from these wider circles. As a result the facility of supply is likely to grow smaller as fresh supplies have to be expected from poorer sections of the community. Just as one place may enjoy the sweets of protection in a neighbouring market because of the high transport charges from all areas outside, so undertakers who are fortunate in well-to-do parentage will be protected in their profits by the high time-preference of persons of inferior social position.[1]

Third, we have a parallel consideration in the fact that *considerable capital and influence are needed for starting as undertakers* in most lines of business, and as a result the supply of undertakers will be limited by the relative fewness of the persons who possess these assets. The man with small capital will find the burden of a given uncertainty so heavy[2] as to make him only willing to enter if he has the expectation of a large profit; and the effect of this will be precisely similar to that of the difficulty which poor persons experience in advancing money for education and training. On this point Dr. Marshall has said :—" Many of those who would be most competent to manage difficult businesses with wisdom and enterprise are repelled from great risks because their own capital is not large enough to bear great losses. . . There are many branches of the textile, the metal and the transport trades in which no business can be started at all except with a large capital."[3] Similarly, Sir Sydney Chapman has written :—" It is still necessary in almost all cir-

[1] This will be counteracted to some extent in so far as persons with social ambitions, as mentioned above, have an inelastic demand for income.

[2] *See* below, p. 164.

[3] *Principles*, 611 and 613; *also* 602, 603, 608; and Davenport, *Econs. of Enterprise*, 399–400.

cumstances that a person should be possessed of some substantial resources if he is to thrust himself into the employing class. Moreover, it is generally requisite that he should have received a certain kind of training, and be in certain relations with particular sections of the business world, to enable him to make a start with fair prospects of success. Consequently, to all but the most exceptional of those who are born in the lower economic ranks the scaling of the industrial ladder is hard, in the absence of unusually good fortune."[1] Again, we have the opinion of Prof. Irving Fisher that " while the possession of capital does not prevent a man from being a wage-earner, the lack of it tends to prevent his becoming an employer," and " this still further limits the supply of employers and tends to elevate still further their profits."[2]

Fourth, the *lack of knowledge* of the true possibilities of undertaking except for a privileged few with " inside information " is likely to safeguard the latter from the competition of newcomers. At any rate, it will cause the response of supply to be much slower than would be the case if knowledge were more equal.[3]

These four factors are all operative to a fairly general extent in our present economic system. But it is to be noticed that their influence is likely to vary greatly in different cases. In some industries the need for capital or training, or connections or special ability may be very much greater than in others; and here, as a result, the facility of supply is likely to be equivalently reduced and the level of profits raised. Also, there is likely to be wide difference in the importance of these factors in the case of major and of minor undertakers. The facility of supply

[1] S. J. Chapman, *Political Economy*, 192. Willett (*Econ. Theory of Risk*, 23) says :—" The entrepreneur with no capital of his own would be at a great disadvantage in the actual world."

[2] *Elem. Princs. of Econs.*, 457 ; *cf. also* W. T. Layton, *Capital and Labour*, 50 *seq.* ; Crew, *op. cit.*, 111 ; Sidgwick, *Princs.*, 337 ; Pigou, *op. cit.*, 147.

[3] Marshall, *op. cit.*, 607 ; Layton, *op. cit.*, 52.

of the former, who need capital and influence and connections, is likely to be much smaller than in the case of the latter. For this reason major undertakers, even in the same line of business, will be much more prosperous than the minor undertakers who try to compete with them, and labour at a disadvantage for small profits, because they have only a small capital.[1] For instance, it needs only small capital and little training and influence to institute a restaurant or to become a shopkeeper, and the supply being fairly facile the profits are low. It needs, on the other hand, much capital and influence and experience and ability to become an undertaker who prospects for oil; and profits in this line of enterprise are consequently very high, even when allowance has been made for an undertaker expecting a larger minimum return on a large capital than on a small. This consideration, though very evident, needs to be stressed to correct a misunderstanding which prevails as to the effect of the development of Joint Stock Company organization. It has been too readily assumed that industry thereby becomes "democratized." The Joint Stock Company, certainly, facilitates the entry of men of small means into the ranks of minor undertakers; but, except possibly indirectly, it has no effect in opening the ranks of major undertakers to the moneyless outsider. In fact, it is quite possible that the modern development has quite the opposite effect by facilitating a sixth kind of limitation which we are about to mention.

There is another consideration concerning major and minor undertakers which complicates the matter somewhat, in the fact that the minimum supply-price in the two cases may be widely different. The lowest that this price is likely to be will be set by the income obtainable in alternative occupations. In the case of major undertakers the alternative may be a fairly prosperous pro-

[1] *Cf.* Marshall, *op. cit.*, 602–3, 610–11.

fessional career and large investments; while with minor undertakers it may be only an inferior professional post or salaried employment. This fact will be an additional cause of the considerable divergence of profits in the two cases.

There remain a *fifth* and a *sixth* factor which will tend to make facility of supply of undertakers small; and although these are less general than the other four, they are none the less important in determining the level of profit in particular lines of enterprise, and hence in affecting the average level of business profits in general. In cases where undertakers enjoy *special legal privileges* they will be protected to that extent in the enjoyment of their profits. Historically, as will be seen later, this type of limitation has played a very important *rôle*, giving place before the attacks of nineteenth century liberalism to the unimpugned hegemony of the other five. It still exists, however, in a few forms, in the shape of patent rights and special franchises, and in recent years there has been a development of it in special colonial concessions.

The other form of limitation has a similar effect, although it exists independently of any legal prop. When the new undertaker is balancing in his mind the advantages of entering a line of business as against its disadvantages, he will take into his reckoning a large part of the differential gains of established business, based on extensive connections and goodwill, for the reason that similar privileges are likely to accrue to himself in the fulness of time, after he has laboured in the business and established the repute of his own name. They are as much inducements to him, though they lie ahead in the future, as are the future earnings of the artisan which induce him to suffer a tedious apprenticeship. Here the matter is usually left: this "rent of goodwill" itself becomes an inducement to new undertakers to build up that goodwill for themselves. But there is another feature to the picture. *The existence of large established firms* with extensive knowledge and connections which the novice lacks will make the early struggles of the new rival equivalently more severe and add to the risk that he will not survive the ordeal. If he has to compete with a few large and established firms, the risk he faces is greater than if he is starting level with numerous small competitors of equal strength to himself; and this very fact, by raising a barrier to new competition, places established firms in a partially protected position. As Prof. Davenport has pointed out, the "established connections, clientèles, and reputation" of the established firm "is a differential advantage against which new competitors must wage a long and costly contest in achieving an equal footing. Nothing is harder or more expensive to establish than a successful newspaper in a great city. In the main it is not worth trying. The gains of the older businesses are thus mostly safe from competition."[1] This fact makes monopoly mainly a matter of degree: it may seldom be so absolute as to abolish competition, but there are varying degrees in which it may limit competition; and the "unfair methods of competition" which the American law proscribes are merely extreme instances of the competitive advantage which a large firm enjoys.

It is now necessary for us to return to the assumption which was made at the outset of this discussion. And it is here that a possible objection will be raised to the preceding argument. Hitherto in the determination of profits the competition of new undertakers has been considered. What of the competition of existing undertakers in extending their output and reducing prices? Will not this suffice in the long period to reduce profits, whether or not new undertakers enter the lists as well? And in this case will not Prof. Clark and his disciples be right in assuming

[1] *Econs. of Enterprise*, 486; *cf. also* Veblen, *op. cit.*, 55, 138–144; Sidgwick, *op. cit.*, 333–5; Levy, *Monopoly and Competition*, 218–9; Pigou, *op. cit.*, 318. Deliberate Monopoly, giving the power to control output, will be merely the extreme case of this sixth limitation.

that profit "slips through the fingers (of undertakers) and bestows itself on all members of society"?[1]

In so far as this does occur, the preceding argument will, of course, need to be modified. In this case Prof. Clark would be right in asserting a continual cheapening tendency, which eliminates profits and is only checked at the level of costs—including earnings of management as the equivalent of what the undertaker could have earned elsewhere. But even if this cheapening tendency exists, it will clearly be less keen in its operation than if new competitors were free to enter in. It will also be slower in taking effect; and the length of the interval, as Prof. Clark admits, is an important factor in determining the magnitude of profits at any one time.[2]

In certain cases this objection to our argument will undoubtedly hold; and the competition of existing undertakers will suffice to reduce profits to a minimum, and so distribute any temporary surplus in lower prices to consumers. For instance, this is likely to be the case in young industries where undertakers are keen to nurse the market into appropriate habits of buying and each vies keenly with the other to establish himself in the consumer's favour. It may be found in an industry dominated by one or two large and powerful firms, tough in a competitive struggle, who contend bitterly for the elimination of each other, in order to win the victor's prize of deliberate monopoly control. Over a short period it may result from a faulty estimation of the capacity of the market or from a panic in the face of a falling demand.[3]

[1] Clark, *op. cit.*, 405. It is difficult to discover which sense of competition Prof. Clark has in mind as the force which eliminates profits. In one place he refers to the competition of *new* undertakers (291); but elsewhere the other meaning seems suggested (111, 179). At any rate, he makes no clear distinction between the two senses of the word.

[2] *Ibid.*, 410–11, 437.

[3] *Cf.* "When trade is slack, a producer will often try to sell some of his surplus goods outside his own particular market at prices that do

But the fact that this type of competition is usually characterized by men of business as " cut-throat competition " and that the producers' response to it so frequently takes the form of market agreements, suggests that it does not belong to the normal conditions of business competition, but is rather an exceptional occurrence. And there are, indeed, specific reasons which tend to show that the competition of existing undertakers in the normal course of events does not suffice to eliminate profits. Apparently limits to this cheapening tendency exist, which, in the absence of the rivalry of new undertakers, operate long before the cost-of-production and no-profits level of Prof. Clark is reached—limits which are customarily recognized in the fact that a firm may have power of deliberate monopoly, even though 30 or even 40 per cent. of the output of the market is under the control of rival firms.

Save in the exceptional circumstances just mentioned, which cause considerations of cost to be temporarily forgotten, it will not be the policy of an undertaker to expand his output beyond the point of maximum profit, and a limit to cheapening of prices is likely to be found in a limit to the profitable increase of output. If we first assume the case where facilities for improvements in organization do not suffice to produce increasing returns as supply increases, any considerable increase of output is likely to be hampered by technical difficulties, which render the cost of additional supplies increasingly great. Expansion will be limited by the fact that after a point, not only marginal, but also average costs increase as the supply gets larger. Where it is marginal costs that rise most rapidly the point of greatest profit will tend to be

little more than cover prime costs." (Marshall, *op. cit.*, 458.) It will be noticed that in these cases not even ordinary costs of production will set a limit to cheapening of prices.

where marginal cost is just covered by selling price; and in considering average costs the business man will not expand his business beyond a point where average costs rise sufficiently to diminish his total surplus of receipts over expenses. If a period of keen demand and good market prices intervenes, undertakers will probably be induced to expand their sales towards this point, in order to secure the maximum profit. But there will be no inducement for them subsequently to expand beyond this limit. With existing plant and equipment prime costs will tend to rise so as to limit expansion; and even if business men are tempted to increase their equipment, the particular expenses of production for the individual firm are likely to rise so as to set a limit to the expansion of the business unit. If competition of new undertakers were unlimited, the high profits would be a force attracting new men to enter and steal some of the market; but when the entry of new rivals is limited, high profits will tend to persist, not disappear.

In many instances, however, it will be the case that an expansion of production will enable economies to be realized which effect a general lowering of costs. In this case the limit, just mentioned, will be postponed, and a given increase of output by facilitating economies may make a further increase possible. A venturesome undertaker may even be induced to neglect marginal costs at the moment, and to lower prices and sacrifice profit for the time being, in prospect of lower costs and greater profits in the future. Expansion of output of this kind may have the effect of diminishing profit in the short period, but it will not do so in the long period—the very reverse of what Prof. Clark's argument supposes. It will take place, as a rule, only so far as it is made profitable by decreasing costs. And from the long period point of view cheapening of prices will have followed cheapening of average costs, but will not necessarily have overtaken the latter. Moreover, the action of the ambitious undertaker, expanding output to effect economies, will tend before long to steal the market from less fortunate firms on the margin, who are, perhaps, striving to avoid bankruptcy, and for whom any vigorous competition is likely to be the death sentence. In this case the increased output of one undertaker will be balanced by the decease of another; and if this process continues the eventual result is likely to be the dominance of the market by one or two of the most powerful firms. It would seem, in fact, as though the existence of a fringe of weak minor undertakers on the margin of an industry will act in this way as a "cushion" to any tendency of competition to "squeeze" the profits of major undertakers; and the profits of the latter may increase in the long run rather than diminish, if they are not pressed by new rivals from outside.

There is a further consideration. The profits of a period of good trade, in so far as there is no general scepticism as to their continuance, will tend to be capitalized. In times of business prosperity, for instance, it is not uncommon for firms to "write up" their capital by the issue of "bonus shares" and in other ways, or to issue new blocks of shares for subscription; and in the case of new promotions or reorganization the capitalization will tend to be directly influenced by the prevailing high profits. This increase in the capital sums on which the payment of a "reasonable" rate of interest is expected will probably act as a restraining influence on such actions as tend to lower prices beyond the point where such a "reasonable" return can be paid.[1] Of course, like any costs once incurred these increased capital charges will not necessarily enter in a direct way into the undertaker's calcula-

[1] *Cf.* Veblen, *op. cit.*, 153, 217, 241, 253; *also* Jenks and Clark, *The Trust Problem*, 100: "There can be no doubt that a high capitalization brings pressure to bear upon officers of corporations to raise prices of their products. Payment of dividends is likely to seem their first duty."

tions as to how much it is worth his while to produce. In so far as overhead costs remain constant whatever the size of his output, the undertaker may stand to gain as much by pressing his sales as by restricting them. To expand his output as far as " prime costs " permit is most likely to be the policy where each firm produces only a small proportion of the total output of the whole market, and where, in consequence, the action of each will have little effect by itself on market prices ; whereas, in cases where a major part of the whole market is served by a few firms, this policy is less likely to be pursued. In any fairly-established line of business, however, each firm will probably possess a " private market " of its own, composed of a fairly regular clientèle which in various ways it has attached to itself.[1] A large part of the " goodwill " of a business will, in fact, probably consist in the possession of a private market of this kind. Unless, therefore, each firm fears that its rivals are intending to " poach " on its preserves, its chief concern is likely to be to maintain prices in its own private market. In so far as the action of each firm will depend on what it *thinks* a rival intends to do, the problem is to that extent indeterminate. But there seems little doubt that the existence of high capitalization will tend to act as a restraining influence on each and all not to " spoil " their several markets. The idea of what is the " normal " price below which sellers do not wish to fall will be adjusted to the increased capital charges ; and this idea of the " normal " price will affect judgments as to the intentions of rivals. If prices should be pressed below this, the very fact of overcapitalization would tend to predispose business men to a policy of caution—to follow paths already trodden rather than hastily to pursue expansion and rivalry ; and the weak

[1] *Cf.* Marshall, *op. cit.*, 457–9. Where the demand curve for this private market is of the diminishing, not constant, utility type, the seller will, in fact, restrict his output according to the principles of deliberate monopoly. (*Cf.* P. Sraffa in forthcoming *Annali d'Economia*, Vol. II.)

financial position of businesses would tend to make more difficult the raising of credit. If new firms were to arrive on the scene in sufficient numbers, with a lower basis of capitalization and in gay adventuring mood, poaching on existing private markets would probably begin, setting in motion a general undercutting of prices. The large "quasi-rent" of the short period would attract new competition to reduce profit generally to a minimum point. But where the entry of new firms is restricted, there seems a fair chance of the level of "normal" output and prices being adapted to the level of profits rather than the reverse. At any rate there is no reason to assume that the latter will necessarily result, as Prof. Clark's argument about the "disappearance" of profit requires one to do.

The assumption, however, which was made at the beginning of this chapter may be imperfect, not because competition narrows the opportunity for profit, but for an opposite reason. Economic progress, which increases the productivity of industry, will have the effect of continually widening the opportunity for profit, in so far as this progress takes place in advance of the competition of new undertakers which it summons. As the productivity of industry in general expands faster than the money costs which the undertaker has to pay, a considerable surplus will remain in the hands of existing undertakers. Profits of enterprise as a whole will contain a considerable quasi-rent—an excess of demand price over the supply-price of undertakers. It is this additional element in profits, due to unforeseen change, to which alone Prof. Clark vouchsafes the name of "profits of enterprise"; but this treatment, as we have seen, is incomplete. The income of undertakers in general, therefore, under conditions of economic progress will consist of a reward depending on the supply-price necessary to attract undertakers (which will be conditioned by the limitations already mentioned in this chapter), *minus* a small amount due to the cheapening effect of exceptionally keen competition in certain cases, *plus* an additional surplus which arises in the course of economic progress. To the latter of these three elements we shall return in a subsequent chapter.

It now remains merely to say a word concerning the fact, of which mention has already been made, that an increase in the earnings of a business tends to be capitalized. A rise of profit, due to increased prosperity, will tend to cause directly an increment of undertakers' capital; and a given level of profits, determined by such limitations on the entry of new undertakers as may exist, will tend to be capitalized in a certain capital valuation of the enterprises concerned. For instance, capital increment may be seen in the increased value of a business partnership, which the owners may realize by selling a share to a new partner; or in a joint stock company shareholders may benefit from the enchanced market valuation of their holdings or from the receipt of "bonus shares."

On the face of it this might be taken as an admission of Prof. Clark's case. When it is said that a given level of profits tends to be capitalized, does this not mean that profits have disappeared in higher interest costs? Have not the temporary profits of the short-period ceased to exist and been replaced by interest paid on an increased capital? In *this* sense of profits—profits as abnormally high interest rates—the statement is true. But, in the sense of profits in which we have used it, as *the income of the undertaker*, the statement that profits have "disappeared" is not true. Prof. Clark appears to use the word in the former sense in his main argument, and then to pass to the latter meaning in drawing his conclusions. For, in Prof. Clark's theory the "disappearance" of profits in the long-period involves profit "slipping through the undertakers' fingers" and "bestowing itself on all members of society"; and this can only mean that profit eventually ceases to accrue to the undertaker and passes into the hands of *other persons*, whether in higher wages and interest or in lower prices to consumers. To some extent, of course, this will occur. But in so far as this "disappearance" is due merely to increment of undertakers' capital—an increment rendered permanent by permanent limitations on new competition—profits as the income of undertaking will not disappear, but will persist in another form. In receiving interest on his increased capital, the undertaker is merely receiving what formerly accrued to him as an abnormal dividend on a smaller capital. As a result of the capital increment he will in future be able to acquire a larger income from society as interest spread over an enhanced capital.

Since this gain will be an important part of the fruits of enterprise, will sway the hopes of newcomers, and will vitally affect the share of the national income which the undertaking class can secure, there seems no reason to deny to it a proper place in the theory of profits. Moreover, it has an additional significance, which renders a treatment of profits as a purely dynamic creation singularly incomplete. Capital increment may have a permanent effect in increasing those limitations on the supply of new undertakers which we have described in this chapter. For instance, it may increase the sixth of those limitations—the difficulty which new firms have in competing with firms already established. In so far as this is the case, the profits which accrue from economic change may react on static conditions and make the income-drawing power of various classes of the community different from what it was before.[1]

In practice a complication arises because the mere passive investor may share in this capital increment equally with his more active brethren. In American corporations in which the common stock is entirely in the hands of the active controllers of the business the position is perfectly clear. Any increase in the value of the common stock

[1] *Cf.* below, pp. 119-123.

will be part of the profits of undertaking. But in most English companies, where a considerable part of the ordinary stock is held by passive investors, these latter may share equally in the profits of enterprise with the active undertakers themselves. In fact, in cases where a differentiation is clearly developed between passive investors paid by dividend and active directors and managers paid by a salary, the performance of the work of undertaking and the receipt of the profits of undertaking may be said to be entirely divorced.

In the ordinary way the difference between earnings of management and profit will be that the former depends on the scarcity of managerial ability, the latter on the scarcity of men with ability, capital, business connection and daring combined. The price of undertaking associates will, therefore, be fairly high, because of the scarcity of the requisite ability for managerial and directive work; but the reward of capitalist undertakers will be still higher, because of the greater scarcity of persons with the composite requirements. When the essential work of undertaking can be performed by salaried persons, then the chief gains will go, not to them, but to the capitalists, the reward of the former being still governed by the same factors. Perhaps the fact that the combined capitalist and undertaker is no longer needed will make it easier for businesses to be formed; and this may render competition keener and profits lower, and the price of salaried undertakers a little higher because of the increased demand for them. But once the business has been established, any profit there is will accrue to those who are *rentier* owners of the concern. For, capital is essentially the social right to participate in social income, and it is only to the undertaker as a *capitalist* undertaker that historically the gains of enterprise have accrued. Capital is the generalized and transferable right to draw income, and undertaking is merely one use, and (because capital in large units is chiefly required there) probably the most profitable use.

On the other hand, just as it is capital and not merely the work of undertaking which attracts the profits of undertaking to itself, so the capitalist who is also an active undertaker seems better placed for acquiring profit than is the average *rentier*. There is some reason to think that capital increment is largely an attribute of ownership *plus* active control, and this seems to be the principal reason why the full gains of undertaking generally accrue only to those who are capitalist and undertaker combined. This reason is to be found in the existence of certain factors which enable undertakers to share very frequently to a much greater extent in capital increment than the average small investor, at any rate, is able to do. First, the small investor, having a small capital, will feel the burden of its exposure to uncertainty much more heavily than a richer man, and will be more inclined by necessity to choose the cautious way. If, therefore, he desires a steady return, he will have to distribute his investments widely and purchase stock of low and sure yield. Hence he will not have the same opportunities for sharing the gains of progress as does the capitalist undertaker or the large investor. Second, the average investor, if he is brave and invests speculatively, will be more likely to lose than to gain, owing to his lack of inside and expert information. He will not know the favourable moment to buy and sell, and he will not have a power of judging new possibilities and sensing new openings, as the active undertaker will often be able to do ; and he is more in danger of becoming a prey to financial manipulation and false information. He is more likely to buy after a rise and to sell towards the end of a fall than to anticipate such movements of capital values.[1] Third, he will probably not have the same

[1] It will be noticed that this is merely the fourth of the limitations on the supply of undertakers in a different form. *Cf.* above, p. 80. The

facilities for securing special fees and bonuses, and shares in promotion and organization expenses, as does the larger undertaker. Nor will he, as a rule, be in so good a position to obtain shares cheaply at the outset of a company's career. For these reasons, though he will tend to receive normal interest and may at times get the favour of a little extra "luck," the average investor will not share very much in the increment of undertakers' capital. This increment will accrue, in the main, to capitalist undertakers, and especially to financial undertakers, although at times it may be shared by large passive investors; and this fact seems to give good reason, in addition to the historical one, for treating the gains of the undertaker in a separate category, and for claiming on behalf of profits something more than a short period and transitional significance.

In conclusion, therefore, it appears that an adequate theory of profit needs to place emphasis on the following points.

First, the factors which govern the supply-price of new undertakers is a more important consideration than the question whether profit is in the long run governed by this supply-price. In the case of undertaking there seem to be particular limitations on new undertakers which cause this supply-price to be comparatively high. These limitations, expressing themselves in a high Minimum Supply-Price and a small Facility of Supply, give the reason why the income from undertaking is high on the average relatively to most other forms of income, as, for instance, the income from wage-earning. These limitations, however, tend to be of varying importance in different cases and different industries.

Second, it follows that profits of undertaking will tend to contain a surplus in excess of what an undertaker could

importance of this consideration is measured by the superior ability of an Investment Company to invest profitably as compared with the private investor.

have obtained if he had employed his ability and his capital in some other way. One is only justified in treating this surplus as of transitory importance, ultimately tending to be distributed over the community, on the assumption that the factors which limit the Facility of Supply of new undertakers are of no importance. This assumption seems to be approximately true of a society of classless individualism, but not of capitalist undertaking. In too many cases a theory of profits is held which is applicable to the former, but not to the latter type of society.

Third, there exists a tendency for the profits of undertaking to be capitalized. By this it is not meant merely that profits are reinvested, but that an increase of profits directly causes an increase in the value of undertakers' capital on which the profit is earned. As a result, the undertaker is able to secure an enhanced income as interest on this increased capital: what he formerly secured as "profit" he later receives as "interest" on this capital-increment. Although profits will tend to be shared with the passive *rentier*, there is some reason to think that this capital-increment accrues considerably more to the active undertaker than it does to the mere investor. Since this increment is part of the gains of undertaking, it must be included in any theory of profits; and its occurrence is probably an important factor in the accumulation of capital and in the inequality of incomes in modern communities.

As a rule, profit is treated merely as an exceptional and temporary excess of interest on capital in specific uses; and it is argued that all capital is equally liable to share in profit in the long run, since a return on capital in one use will attract fresh capital to it, until the gain is equalized. This neglects, however, the limitations which exist on the freedom of capital to be used as undertakers' capital, owing to the fact that capital in this use is generally required in fairly large aggregations and combined with a certain specialized knowledge and "goodwill." Profit has, therefore, as much claim to be dignified as a separate category of income as has rent of land—the income of the capitalist landowner. The problem of profit will arise as a distinct form of payment owing to the special power which one class of capitalists—those who combine capital with the work of undertaking—has of securing capital increment; and only when the institutional need for this combination of capital with undertaking has passed will profit cease to require a separate treatment.

CHAPTER SEVEN

THE THEORY OF MONOPOLY AND ADVANTAGE

THE problem of Rent, about which something was said in a previous Chapter, has always been a vexed question in economics. Ricardo, who started most of the trouble, devised a theory on the subject in sharp and bold lines. On the one hand, there were some goods and services which were freely reproducible ; and in their case responsive and adaptive movements of supply tended always to adjust their price to the level of "cost." On the other hand, there were other goods and services which were fixed in supply ; and in their case adaptive movements of supply could not take place. As a result their price bore no necessary relation to "cost" at all, but was causally dependent on demand alone : their price was a "scarcity price," containing an element of surplus above "cost." This became most important in the theory of distribution, where interest and wages were placed in the first category, and rent of land in the second.

More recently, however, this rigid dividing line has been a little softened. It became evident, as Dr. Marshall aptly phrased it, that rent "is not a thing by itself, but the leading species of a large genus."[1] Many things—for instance, capital—might be fixed in supply during a short period, but be elastic in supply given sufficient time. Goods which tended to be limited because of rapidly increasing costs of producing them would involve a "producers' surplus," since, although price tended to

[1] *Principles*, 412, 421, etc.

equal cost, it was marginal cost that was in question, and this cost of the final units was presumably higher than that of the rest of the supply. Following out this line of thought, Mr. J. A. Hobson developed a new theory of distribution on the basis of a division of all payments into "costs" and "surpluses."[1] Cost-payments were those necessary to evoke a certain supply and without which the requisite supply would not be forthcoming. Surplus-payments, on the other hand, were due to limited supply, imperfect competition or superior bargaining power, which gave to the vendors of the goods or services in question a superior "*pull*." These surpluses tended to appear in all economic payment, not only in rent of land, and especially in the return to business ability;[2] and these surpluses were distributed according to the strength of the various "pulls" exerted.

Meanwhile the Austrian school had sought to cut through the tangle of confusion in which this rent controversy had become enmeshed, and to abolish the Ricardian categories altogether. Laying the emphasis on demand in the determination of price, they sought to make wages and interest, as well as rent, causally dependent on demand. The value of an agent of production was a derived value—derived, that is, from the utility of its multifarious products. Costs were not absolute, but relative, and the "cost-price" of labour or capital in any one use was merely its value for all other uses—it was the price that had to be offered to attract it in a particular direction by overcoming the attraction of alternative "pulls." "Costs," said Boehm-Bawerk, "are not the final, but only the intermediate cause of value. In the last resort they do not *give* it to their products, but receive it from them. . . . The value of a quicksilver mine depends on the value of quicksilver, the wheatfield

[1] *The Industrial System*, esp. 136 *seq.*

[2] *Ibid.*, 121–135.

on the value of wheat."[1] "Cost, indeed," writes Prof. Davenport, "is itself mostly traceable to resisting demands"—the "competing attractions of alternative opportunities."[2] Hence, there was no real difference between rent, which did not "enter into cost of production" as a determining factor, and interest and wages which did. All alike derived their value from their various uses, and the supply-prices of all were to this extent determined, not determining, factors.

This new point of view, which has multiplied its disciples, particularly in America, in recent years, was substantially accepted by Dr. Marshall. He still defended, however, the validity of the Ricardian distinction, while admitting that the lines as drawn were too crude. The total supply of land was on the whole independent of the price that was offered for it, whereas other factors of production tended to alter in quantity in response to movements of price. The former was unresponsive in its supply; the latter were responsive to changes in price. In so far as this response existed, the degree of response was in itself a determining element in the selling price.[3]

Out of the welter of controversy on the matter one conclusion seems to stand in relief fairly clearly. The differences in the matter, which in the past have been sketched in rigid lines, are really entirely differences of degree. The payment for land is only governed in a different way from the payment for labour and capital to the extent that the degree of facility or response of supply in the case of land is very much smaller—so small as to cause most writers to treat it as virtually zero. The time difficulty—the difference between the short and the long run—is due to the fact that the facility of supply always approximates to zero in the immediate present,

[1] *Positive Theory of Capital*, 189.
[2] Davenport, *op. cit.*, 144; *also Value and Distribution*, 572–5.
[3] Marshall, *op. cit.*, 528–537.

and gradually increases as one extends into the future the period within which one expects the results to appear ; and the rate of increase of facility and the limit to its maximum expansion is very different in different cases. Mr Hobson's distinction between a cost-payment and a surplus-payment has to be modified in practice into a distinction of degree. Things are seldom either completely unresponsive or else infinitely facile in supply :[1] they are of some degree of facility in between. Most payments evoke *some* increase in supply, however small, and are in this sense cost-payments ; the important question, as was seen in the previous chapter, is to decide the size of the response. The only distinction which can be made is that the smaller the facility of supply, the *more* attributable will any change of price be to demand, and the *more* akin will the payment be to Ricardian rent. Every price will be in some degree a mixture of both elements, just as every lover, be he constant or promiscuous, is both a knight and a voluptuary, bestowing favours and at the same time stealing them.

But this fact does not dispose of the usefulness of the conception of " surplus " altogether. It does not follow, as some writers have rushed to conclude, that since every price is a scarcity-price the possibility of specifying scarcity-payments at all must be denied.[2] There is still need to distinguish between relatively greater and relatively less scarcity, to distinguish a payment which, as compared

[1] In this latter case the things in question would not be economic goods with a price at all—unless they had a minimum supply-price. For, price itself supposes some limitation of supply and expresses the degree of limitation.

[2] *E.g.*, F. H. Knight, *Risk, Uncertainty and Profit*, 184, etc. :—" As all income, from the distributive standpoint, is dependent on the scarcity of the agents which produce it, and all in exactly the same way, the meaninglessness of such a description is apparent. And, of course, the same applies to ' scarcity ' income in general, whether monopoly gain or not. There is, under free competition no other sort of income, qualitatively or quantitatively, and the designation neither distinguishes or in any significant way describes anything."

with other payments, is a surplus, because it is due to a greater degree of limitation of supply. The term "scarcity," of course, can cover a multitude of things, according to what arbitrary standard of comparison one adopts. Earnest enthusiasts may regard missionaries as scarce; the unconverted may regard them as irritatingly plentiful. The supply of coins that is superfluous to Robinson Crusoe might be too little by many times in a thriving commercial community. The meaning of economic scarcity, however, is quite definite and clear. The standard of reference is economic demand, and a thing is regarded as being scarce or plentiful strictly in relation to the desire for it. Indeed, in this sense scarcity becomes a term that is interchangeable with marginal utility and with price.[1] If we regard the demand for a thing as given, it will follow that its scarcity will depend entirely upon its minimum supply-price and its facility of supply; and if one thing has a facility of supply that is half that of another, then, *ceteris paribus*, the scarcity of the former will be double that of the latter. If, however, the demand for the one is more intense than that for the other, this fact must be taken into account; and an arithmetic relation between the two demands can be found by comparing the marginal utility of the same quantity of the two things in question.[2] If we suppose that the intensity of demand for *a* is twice that of the demand for *b*, then the condition

[1] *Cf.* Prof. Cassel's remark that "the reason for a price is always the *scarcity* of supply. Were the supply so great as to satisfy *every* demand there would be no reason for a price." (*Nature and Necessity of Interest*, 74.)

[2] This is assuming that the elasticities of demand and supply are approximately equal, just as this is assumed in the case of supply. In so far as this is not the case the result will only be approximate, and the relation more complex. The demand may be said to be more *intense*, when more of a thing is bought for the same price, or a larger price is offered for the same quantity of supply.

for these two things to be equally scarce is for the facility of supply of *a* to be twice as great as that for *b*, assuming the minimum supply-price to be the same.

This condition of supply tends to be the position of equilibrium under conditions of economic freedom, except in so far as supply is limited by natural factors. A high demand for undertakers or doctors, for instance, would tend to increase the response of supply in these directions, and this responsive tendency would continue until the services of doctors and undertakers were no more scarce than any others (except in so far as some extra real cost were involved in the work or the preparation for it). There would only be an obstacle to this, if there were some natural limitation of the appropriately gifted persons. A scarcity of land relatively to labour and capital could not be remedied by an increase in the facility of supply of land, except in so far as marshes were drained and soils improved by chemical processes ; but there might be a tendency for people generally to invest in some plot of land and hence for the supply of landowners to increase. These are merely illustrations of the familiar principle that things and persons will seek that economic use in which the realizable price is highest. Where ideal economic freedom reigns, it will only be when natural limitations apply to personal endowments that the operation of this principle will be seriously prevented from equalizing the incomes of individuals. But where institutional factors hamper the operation of this principle, economic freedom will to this extent be circumscribed, and the tendency to equality of individual incomes will not exist. For instance, class barriers, poverty, and lack of education may prevent large masses from becoming doctors or undertakers; the institution of inheritance and the inequality of wealth may preclude the majority from ever becoming landowners, however much they may desire it. This, indeed, is the essence of the distinction between classless individualism and capitalist undertaking: in the former institutional limitations are reduced to a minimum, while in the latter the institutional barrier of class holds sway. An economic theory which draws its assumptions from the former is, accordingly, quite unsuited to be applied to the problems of the present day.

In the case of commodities scarcity is usually due to some difficulty in obtaining one or more of the requisite agents of production, and this difficulty expresses itself in a rising cost of procuring these agents. Here the small facility of supply is seen as a case of increasing cost. It will not be worth while to press the production of a commodity beyond the point where the demand-price just covers the cost, and accordingly that amount of supply will tend to be marketed which can secure a price just covering marginal cost. But the marginal cost of the marginal unit will be higher than the costs of the rest of the supply, and those manufacturers who are fortunate enough to produce most of their goods at lower than marginal costs will be in a favoured position—they will be able to market their goods at a price which yields a "producer's surplus" over their average costs. This surplus will be large according as the scarcity—due to the unresponsiveness of supply—is large. Where, however, the scarcity is due, not to small Facility, but to a high Minimum Supply-Price, this surplus will not arise; for costs will generally be as high as the marginal cost and the market price.

In the case of the services of the various agents of production the position will be similar. If some circumstance makes the facility of supply of a service less than would otherwise be the case, the relative scarcity so caused will give rise to a surplus. For instance, if the entry into some skilled occupation like brick-laying is obstructed by trade regulations as to apprenticeship, then each bricklayer in bargaining for wages will be selling a unit of a relatively scarce supply, and will be receiving a surplus as compared with what he would receive if the entry into the trade were as unlimited as it is elsewhere. On the other hand, the supply of men willing to undertake disagreeable tasks such as sewage-work may be limited, owing to the fact that, unless the wage in this work is higher, men will shun it and enter other occupations. In so far as this aversion is common, no men will be procured for this work while there are opportunities elsewhere, unless a higher wage is offered—in other words, the minimum supply-price will be high. Here there will be no necessary surplus earned by sewage-men ; for, the scarcity is due, not to institutional limitations which make supply infacile, but to a high minimum supply-price owing to the nature of the occupation : the extra wage is balanced by the extra disutility involved in the work.

This differential advantage which the suppliers of a scarce service enjoy can be expressed in a different way : it can be said to arise when certain persons possess greater *opportunities* than others possess. The higher wage obtained by the sewer-men is not a gain of advantage in this sense. Those who have undertaken this work have no greater opportunities than have workers in other occupations. All have the same choice of occupations, and the higher wage for sewage-work is merely a condition in their choice, without which they would shun that particular employment. But with the bricklayers that were mentioned the case is different. They obtain a higher wage because they possess the opportunity of performing that work while others are precluded from doing so. The choice for them is not the same as for others : it includes an additional opportunity. They are merely more fortunate in having passed through the mesh which keeps others back from that employment. Similarly, the large landowner has superior opportunities, as compared with landless persons and small landowners.

He possesses a large number of units of an important factor of production. On the other hand, where land could be taken up in such quantities as the owner was willing to cultivate, the opportunities for securing land would be equal to all, even though only a few might be energetic enough to avail themselves of such opportunities. This is prevented, however, under conditions where some persons possess the wherewithal to purchase agricultural implements, and so can cultivate more land, while others do not.[1] Scarcity of supply and larger opportunities are, therefore, seen as reverse sides of the same thing.

This differential advantage, due to superior opportunity, it seems convenient to describe as a scarcity or monopoly gain, and the persons who are thus graced by fortune may be said to be in a position of *monopoly* or *advantage*; and it is in this comprehensive sense that the term monopoly will here be used.[2] It will, then, be possible to classify three principal forms of monopoly according as the limitations in question are of three different kinds. First, there will be limitations due to the restraints of nature's bounty, as with inborn personal qualities; and this may be called *natural monopoly*. Second, there will be limitations

[1] For an example of this, *see* below, pp. 284–5.

[2] Objection is sometimes raised to the use of the term in this comprehensive sense. It is urged that the word should be confined to the narrower use, applying only to deliberate control of supply, which we have here called "deliberate monopoly." There is certainly some disadvantage in using the term both for the genus and for one species of the genus. But since the whole matter of monopoly is so much one of degree, there seems much to be said for using it in the wider sense, emphasizing thereby the common characteristics of the genus. Moreover, the wider sense, equally with the narrower, seems to have the sanction of usage. Economic historians use it in this sense. It was used in this way by Adam Smith (*Wealth of Nations*, Bk. IV, Chap. 2) and by J. S. Mill (*Principles*, ed. J. W. Parker, Vol. I, 496); *also* by von Wieser (*Natural Value*, 107–110). W. Smart talks of "Brain-workers" as possessing a monopoly (*Second Thoughts of an Economist*, 70–1). Other cases where it is used in this sense comprise: F. B. Hawley, *Quarty. Journ. of Econs.*, VII, 468–470, 473, 476–7; T. Veblen, *Theory of Business Enterprise*, 54–5; L. V. Birck, *Theory of Marginal Value*, 95; J. R. Commons, *Distribution of Wealth*, 104–6; Marx, *Capital*, III, 892, 896, etc.

which social institutions impose, as when the supply of educated ability is confined to a certain class; and this we may term *institutional monopoly*. Third, certain limitations will be caused by the deliberate action of some group of persons to render some thing or some service scarce, as when competitors restrict output in agreement, or a trade union restricts entry to a trade; and this may be distinguished as *deliberate* or *intentional monopoly*.[1] The theory of monopoly is, as a rule, confined in economic writings to this third species. It is to be noticed, however, that the term monopoly describes a relation between things or services and *persons*; and hence natural monopoly applies as a rule only to personal qualities restricted by nature. The natural scarcity of land will cause a surplus to appear in the price of land and so will accrue as a benefit to landowners. But this surplus will disappear in the general distribution of income, as we have mentioned above, so long as an element of institutional or deliberate monopoly is not added to confine the ownership of land to a section. Hence a natural scarcity of objects cannot be converted into a monopoly attaching to persons unless an institutional element is added as well. Only when the natural scarcity attaches to some personal quality will it of itself give rise to a surplus which places its receiver in a position of differential advantage.

Besides advantage due to monopoly, however, it is important to notice certain other forms of advantage, which are usually described as advantages in bargaining power. This bargaining advantage affects the rate of exchange at which the transaction is concluded, not independently of demand-price and supply-price, but by making the demand-price of those who are in the weaker position higher than it otherwise would be. These persons

[1] This distinction is made by Mr. H. D. Dickinson ("Institutional Revenue," *Economica*, June, 1924, 187). Mr. Dickinson, however, prefers the term "Restriction" to "Monopoly."

are willing to close the transaction at a rate less favourable to themselves than would otherwise be the case.

First, there is the factor of time in connection with a sale or purchase. If one party to a bargain desires to close the deal in a shorter space of time than does the other party, he will be willing to sacrifice something in the price he receives for a speedy conclusion. Since he will consider it more worth while to close the deal soon rather than later, his demand-price for money or for goods in the present will be higher than for those same things in the future.[1] Being unwilling to wait, he will assent to a less favourable rate of exchange than he otherwise would have done. This may be due to poverty, or to some other reason which increases his eagerness to satisfy present needs, or to the perishable nature of what he offers for sale.

Second, there is the advantage gained by superior information; and akin to it is the third advantage gained by greater mobility. If the sellers in a market are more mobile than the buyers, they will have a wider market available to them—a larger number of alternative opportunities of sale. From the point of view of the buyers, on the other hand, there may be several markets, between which they themselves have little access, and as a result the range of alternative or substitute supplies will be limited. For this reason the buyers in each market will have a higher demand-price than they would have if they could reach more substitutes; and a precisely similar

[1] This is a case of time-preference, and the higher the time-preference of one party relatively to the other, the weaker his bargaining power. The extra payment which the weaker has to make is in the nature of usury at the expense of his abnormally high time-preference. (*See* below, p. 287–9). Dr. L. V. Birck includes this as a species of monopoly, calling the price a *distress-price*. "Buyers and sellers will never be equally strong. One will always be in a position of monopoly to the other, who on the other hand will be in distress. . . Capital is nearly always in a position of monopoly in relation to labour." (*Op. cit.*, 93–4.)

consideration applies to buyers who possess less information about alternatives than do the sellers.[1]

Fourth, there is the advantage which can be obtained by the party to a bargain that has control of a larger number of units. The most familiar instance of this is the contract between the employer and the individual worker. Since the employer hires workers by the hundred, whereas the worker has only his own labour to sell and has to sell it as a single unit, the employer will suffer less by the loss of the service of one worker than the worker suffers by losing an opportunity of employment.[2] This is, indeed, merely a special case of the general principle of the diminishing utility of wealth or income. To the person who is buying or selling a large number of units, each single unit, the subject of each transaction, is a marginal unit, of which the utility is smaller to him the more he possesses. But the person who has only one unit to buy or sell feels in it a very high utility.

Now where monopoly, either natural or institutional or deliberate, is absent, these elements of bargaining advantage are only likely to persist in the short period. The fact that one party is making an extra gain out of the transaction by reason of his strategic position will merely be a factor in the long run attracting an increased supply of persons who wish to share in the gain. This increased competition on one side of the market will play into the hands of those on the other side, and so counteract the bargaining disadvantage which the latter formerly suffered. Where, however, there exists an element of monopoly, this will not occur—or will only occur to a limited extent; and the gain of bargaining advantage, itself reliant for its continuance on monopoly, will be added to the gains which monopoly enables its beneficiaries to enjoy.

In international trade the importance of monopoly

[1] *Cf.* D. H. Macgregor, *Industrial Combinations*, 71–3.
[2] *Cf.* Pigou, *op. cit.*, 515.

gains has always been recognized, at least implicitly. One country which enjoys the possession of some scarce natural property—a supply of minerals or a climate favourable to some production—may thereby be enabled to acquire such large supplies of imports with such small expenditure of effort and sacrifice in its export trades, as to give it a higher standard of life and a higher level of business profits. The reason of this is that nations constitute to some extent "non-competing groups," and the passage of people from one country to another is limited. The favoured country enjoys a wider range of alternative markets in which to sell its products, and benefits from the rivalry of foreigners to secure the favour of its custom in supplying its needs.

Institutional factors, however, will play a part in this as well, and a nation which has stringent political regulations against alien immigration or the entry of foreign capital may, *ceteris paribus*, secure to its own nationals a larger gain from its natural resources than would otherwise be the case. By institutions devised to protect and foster its productive powers a nation may be able to acquire certain advantages which it formerly did not possess. A country which enjoys the gains of a monopoly position can usually draw revenue at the expense of a poorer country by the imposition of an import tariff, since the latter has a keener demand both for the goods and the markets of the former than has the former for the goods and the markets of the latter. Again, a country which has political control of a subject country may by careful regulation gain at the latter's expense. For instance, in the manner of the seventeenth and eighteenth century colonial system, the subject country may be compelled to deal only in the markets of the mother country;[1]

[1] This was remarked on by James Mill, *Elements of Political Economy* (1821), 168–173, who pointed out that "the mother country profits by compelling the colony to bring its goods exclusively to her market, since she would have to pay for them as high as other countries if the

or a similar result in milder form may be achieved when political influence induces the authorities or the subjects of a colonial or a protected or mandated country to place contracts or concessions with the imperialist country to a greater extent than would otherwise have been done.[1] Moreover, a poor and undeveloped country may have in addition a bargaining disadvantage in its relations with the financiers or concession-hunters of a richer nation, if the latter are organized in syndicates and consortiums and are backed by political authority. The former will probably have urgent need of the services of the latter; it may have but a small range of financial and commercial connections and hence little financial "credit" or "good-will"; it will have smaller resource and perhaps imperfect information; and for these reasons it may be forced to purchase capital or the services of enterprise at an unduly high price.[2] It may even from its present necessity be induced to yield concessions and measures of political control which place it in a position of greater economic disadvantage in the future, a state of affairs well exemplified in the recent history of countries like Turkey, Tunis and Morocco.

It is, indeed, as anti-monopoly theories that the doctrines of the Just Price and of Usury, which so vexed the mediæval Schoolmen and have vexed their many modern interpreters, find their most adequate explanation. The Schoolmen as guardians of the feudal tradition were naturally opposed to the new commercial dealings in which the man of money or of extensive market connections had a distinct advantage. They objected to the revived popularity of Roman

people of the colony were at liberty to sell wherever they could obtain the greatest price." Adam Smith said that "by the establishment of colonies . . . a monopoly was procured for the goods and merchants of the country which established them." (*Wealth of Nations*, Bk. IV, Chap. 1.) *Cf. also* Torrens, *Production of Wealth*, 234, 240–5.

[1] *Cf.* below, 345–8.

[2] This is discussed in greater detail below, Chaps. 11 and 21.

Law, which recognized private property in movables, and established a man's right to obtain a position by mercenary contract in violation of the status assigned to him by God, tradition and customary feudal service. Objecting as they did to the growing habit of securing the full price which moneyed advantage could give one—an iconoclastic tendency—they propounded the theory of the Just Price; and this price, clearly, they conceived as that which would be paid when neither party to a bargain possessed any undue advantage. St. Augustine of Hippo wrote: "I know a man who, when a manuscript was offered him for purchase, and he saw that the vendor was ignorant of its value, gave the man the just price, though he did not expect it."[1] St. Thomas of Aquinas defined the "natural" object of exchange as the common advantage of mankind, and argued that in consequence the sale should in justice bring equal advantage to both parties. If the buyer is in great want, and the seller will suffer by parting with the desired object, a high price will be just in recompense for the hurt to the seller. But if the seller incurs no hurt from the parting, and the high price is merely the measure of what the buyer would suffer if he had to go without, then the price is unjust. As applied to specific acts of sale, this argument, of course, can be made to look ridiculous; but elevated to a general precept it can be regarded as a quite reasonable distinction. The whole argument about usury, and the exceptions made to the general prohibition, quibbling and sophistical though they may seem to the modern mind, portray the desire to distinguish payments received by virtue of the advantage of possessing money as against the moneyless man, from payments in compensation for some real "cost" incurred by the lender. Some modern writers have, indeed, attempted to identify the Just Price with the competitive price. But the identification is only correct

[1] Quoted Ashley, *Introd. to Econ. Hist.*, Vol. I, Bk. I, 133.

if it is the competitive price in a classless community, not in a society with inequalities of rich and poor.

To the social distribution of wealth and the problems and disharmonies which arise from its inequality the theory of monopoly will be seen to be of primary importance. For, monopoly, it would appear, is the Aladdin's lamp to wealth; and those who possess it will be able to claim a larger share of the community's income than those who are less favoured. Property-rights are predominantly rights to acquire and hold monopoly. Inheritance is an institution devised to perpetuate monopoly "unto the third and fourth generation;" and the history of the growth of riches will be in large part the history of monopoly and its development in various forms. Much, therefore, that the economists of the 19th century in their enthusiasm regarded as "natural"—the work of forces which it was beyond the power of man's hand to shape or bend—becomes to more sober vision the product of special institutions, which those who are blessed by monopoly will champion, while those who bear the burden of it will strive to overthrow.

CHAPTER EIGHT

Profit and Economic Change

If the theory of profit which was outlined in a previous Chapter be true, then profit will be a principal species of monopoly gain. Profit, it was suggested, is not in the main due to the existence of a high minimum supply price of undertakers, but to limitations on the facility of their supply. It is not principally to be explained as a condition in the free choice of those who seek suitable employment and who without an additional inducement would shun the toils and hazards of a business man's career. This, indeed, might be sufficient explanation in a classless community, but it seems to give meagre satisfaction in the class society of to-day. Rather is profit a gain of wider opportunity—a surplus which the man of good fortune can enjoy, because he shares this good fortune only with a few. It will follow that in so far as this scarcity of favoured persons is due to the first of the limitations which were mentioned—to the natural rarity of business ability—profit will be a gain of natural monopoly. But in so far as any of the other five limitations are important, the basis of the undertaker's advantage will be institutional.[1]

[1] That profit is a monopoly-payment is a view which has been clearly advanced by Prof. Gide as a possible explanation. He quotes Walras as saying the " normal rate of profit is zero," and proceeds :—" This amounts to saying that the only *normal* income of the entrepreneur is that which he receives in his capacity of worker or capitalist. . . . There can be a remainder only if the value of the finished product is greater than the total sum of the expenses of production. Now, this is possible only in so far as the entrepreneur is invested. legally or *de*

But in addition to the gains of monopoly, it would seem that profit contains, as a general rule, not inconsiderable gains of bargaining advantage as well. As compared with the rest of the community, and at any rate as compared with workers and small *rentiers*, the undertaker possesses in some degree all the four elements of bargaining advantage which were described in the previous Chapter. He is generally less eager for immediate income and has a lower time-preference. He has usually better information as to market conditions; and, as a rule, he has more ability to buy and sell in several markets, and in consequence markets are habitually wider for him than for those with whom he deals. His transactions are on the average in larger quantities of units than is the case with those who confront him, unless it be the exception of the very

facto, with a monopoly of some sort, a privileged situation. . . . For, if the competition of entrepreneurs is free, since it will be most active wherever there is a profit to be gained, it cannot fail to bring down the value of the product to the level of cost of production." (*Pol. Economy*, Ed. Archibald, 663.) The first to proclaim profits as a monopoly-payment was Karl Marx in his Theory of Surplus-Value, to which the present writer owes the conception. He maintained that surplus-value was due to the difference in the market-price of labour-power and its product. Mr. J. A. Hobson, however, has pointed out that profit may be obtained at the expense of *rentiers* as well; and says:—" (Profit) is great or small according as (the undertaker) can buy the other factors cheap and sell the product dear. . . . The number of competing entrepreneurs buying the other factors and selling the product is much smaller than the number of separable units of labour-power, capital and land, which are competing to find purchasers, and the competition of the former is less keen, constant and ubiquitous than that of the latter." (*Indust. System*, 131–2.) Mr. Hadley defines rent in a non-Ricardian sense as "any *permanent* excess of the rate of profit over the rate of interest" (*Economics*, 286); and Prof. Cassel says that profit "depends upon a privileged position, which the business has secured in one or other respects. . . . The profit must be regarded as a rent of position, and the position itself has a capital valuation which figures when the business is sold" (*Theory of Social Economy*, Vol. I, 168–9; *cf.* also *Nature and Necessity of Interest*, 184.). Mr. H. B. Hawley also has expressed this view in the *Quarty. Journ. of Econs.*, VII, 459–479; while Mr. Macvane, writing in 1888, said:—" The skilful business man renders highly important services in production, and is ordinarily able to command a return proportional to the effectiveness of his monopoly." (*Quarty. Journ. of Econs.*, II, 458.) *Also* Edgeworth, *Papers*, I, 104–5; Scott Nearing, *Income*, 11–15; H. D. Dickinson, *loc. cit.*, 189.

large investor and the rich landowner. As a result the undertaker will in most cases be in a position to secure the services of the other agents of production at a price below the upper limit of their marginal indispensability as determined by supply and demand; and so he will receive, for this reason, an additional element of profit. This is especially likely to be so in the case of the poorer among the workers, since they are likely to be at the greatest disadvantage in all four respects; and if an element of deliberate monopoly is added in the shape of wage-agreements among employers—tacit understandings, perhaps, not to "spoil" the labour market—the undertaker's advantage will be increased still further.[1] This bargaining disadvantage is one of the principal factors which impel the formation of trade unions, and cause them continually to strengthen their organization to keep pace with the increasing size of the employing unit and the increasing advantage which undertakers acquire.

The possibility of this extra gain has been admitted as a rule by economists, who have given to it the name of "exploitation,"[2] although very often they seem to have endowed it in practice with too little significance. Marx, on the other hand, has applied the term to all gains from advantage, including monopoly advantage. There certainly seems no reason why the term should be restricted to one form of advantage, and it is a matter for comment that economic writers should have confined it so rigidly to one use. But since the term, like Prof. Clark's "productivity," is apt to be taken to imply a final judgment on the fact, it seems better at the present incomplete stage of the analysis to make use of a more neutral word. We shall, therefore, talk of persons as being in a position of

[1] *Cf.* the classic remark of Adam Smith: "Masters are always and everywhere in a sort of tacit, but constant and uniform, combination, not to raise the wages of labour above their actual rate." (*Wealth of Nations*, Bk. I, Chap. 8.)

[2] Pigou, *op. cit.*, 511–19. More generally *cf.* Carver, *Dist. of Wealth*, 261.

disadvantage, when their opportunities are narrowed relatively to someone else; and when the relation between them takes the form of a direct bargain, in which bargaining advantage will tend to play its part as well, we shall describe the former as being in a position of *dependence* on the latter.[1]

The most golden opportunities for the undertaker will be, as most American writers have stressed, in the course of economic change. Not only is he an adaptive force—a link between two states of equilibrium which change disturbs and ever precludes from realization; he is also a dynamic force itself, effecting new groupings of resources with the aim of lowering costs and widening the market to which he can supply utilities. It is out of this class of opportunities—opportunities, perhaps, only dimly seen and seized by faith, rather than certain and embraced in reasoned expectation—that his largest gains arise; and it is here that his advantages stand him in greatest stead. When a change occurs which brings an increased net product to the economic system, the whole of this gain at first accrues to the undertaker, since he receives the margin between selling-price and cost. Only as the force of competition reduces selling prices or raises costs will he be forced to part with this gain to other sections of the community. A very important factor will, therefore, be the length of time it takes for the competition of new undertakers to have effect.[2] The existence of certain limitations on the entry of new undertakers will tend to lengthen this period of time; and even when the forces of the long period have introduced all the competition that they are likely to do, the profit that remains in undertakers' hands

[1] This would seem to solve the difficulty of definition raised by Prof. Cannan in his *Economic Outlook*, 81–2.

[2] "If competition worked without let or hindrance, pure business profit would be annihilated as fast as it could be created—entrepreneurs as such would never get and keep any income" (J. B. Clark, *op. cit.*, 410).

will be larger than it would be if the supply of undertakers were more facile. At the same time the possession of a certain bargaining advantage will enable the undertaker to prevent for some time other agents of production from securing a share in the profits of change ; and hence costs will not rise so quickly as they otherwise would have done. In fact, if the rate of change is fairly considerable, it may progress continually faster than the success of the agents of production in exacting higher returns, and an increasingly large surplus may as a result be retained by undertakers more or less permanently. To estimate the income of the undertaker, therefore, merely from what profits tend to be in the long run, is to give a very incomplete picture. In addition to this the undertaker's profits per annum will include that part of the product of change during the year which has not yet " slipped through his fingers " in lower prices to consumers or in higher costs to other producers. Still further, if the " time-lag " in question is two or more years, profits in each year will include, not only most of the net product of change during that year, but also what remains undistributed of the net product of change of previous years ; and a patent, for instance, which eliminates competition for fourteen years, is merely a device for prolonging the time-lag to that period. During a period of economic progress the actual income of the undertaker will contain not only " normal profits "—the profits that are left in his hands in the long period—but also a considerable part of the " quasi-rent " of change—the profits of the short period.

Gains may accrue, however, to the undertaker through changes other than those which increase the total net product of industry. For instance, they may occur as a result of a shortage of goods during a war, or of the ruin of certain important competitors, or of credit or currency inflation. But the same will apply to these gains as to those that result from constructive changes ; and undertakers may under certain conditions favour the former as much as the latter. The only difference will be that in this case the gains to the undertaker must be at the expense of reduced income to someone else, and they can only be " passed on " to the rest of the community in the sense of a sharing of the spoils or the removal of the loss which is suffered by the aggrieved party. Large profits, therefore, may be coincident with economic decline as well as with economic progress. But, as a rule, this will not be the case ; for when there is a decline in the net product of industry, the loss will fall in the first place upon undertakers, unless it has been foreseen and forestalled ; and the very inelasticity and small facility of supply which benefits them in prosperity will make their burden all the heavier in this instance, since they can only escape it and shift it with difficulty. It will happen, in fact, that most change results in loss to some undertakers, though it bring gain to others ; as, for instance, a change in the habits and desires of consumers which benefits the electrical industry and harms the gas industry, or a war which stimulates the engineering trades but cuts off the market or raw materials of the cotton industry. For this reason, in computing the aggregate gains of undertaking the less evident gains of the unfortunate have always to be balanced against the more noticeable profits of those whom fortune has favoured.[1] On the other hand, the undertaker will pro-

[1] *Cf.* Marshall, *op. cit.*, 621. This statement is sometimes made with an air of disposing of the problem of profit thereby ; and here it is not always clear precisely what is meant. If the statement means that losses must be deducted from gains to find the net income from undertaking, and to find whether this is merely an insurance premium against uncertainty or whether it contains additional elements, then it follows that all losses arising from the uncertain nature of economic activity, including individual and competitive uncertainty (*see* pp. 37–8), must be included. But losses are not to be included which are due to unwise decisions that more efficient business men have avoided, nor losses suffered by minor undertakers who are displaced by the greater monopoly-power of some major undertaker ; for this is a loss applying not to the representative undertaker but only to the weaker ones. If, however, the statement is made to mean that losses must be deducted

bably be aided in his affliction by the bargaining advantage which he possesses, since this may enable him to shift a part of his losses on to others more quickly than he is usually forced to shift in higher wages and interest a part of his gains. But it needs to be remembered that this bargaining advantage is usually much smaller for only one group of undertakers than it is for undertakers in general, and hence losses that are general can be shifted by them more easily than what is particular to one special group.

It will generally be the rule that the course of economic progress, bringing to mankind greater wealth at less cost, will distribute its bequests among its servants according to two main principles. That agent of production which is relatively most scarce and of which the supply is least elastic—least capable, that is, of becoming more facile—will secure the greatest increase of wealth *per unit*. On the other hand, that productive service of which the supply is most elastic will tend (if the demand for it is elastic) to secure the greatest *aggregate* increase in its share of social wealth.[1]

Now the undertaker is in both of these respects fairly fortunately situated. The supply of available undertakers is, for reasons which we have examined, fairly scarce and unresponsive, and for this reason each undertaker is likely to share more in any increased social wealth than will other members of the community. The undertaker's income will usually contain a surplus higher than he could have obtained separately by loaning his capital at interest and seeking for himself salaried employment:

from gains, in order to judge whether the net profit remaining is a cheap or a dear price for society to have to pay for the undertaker's service, then this does not apply, in addition, to losses arising from individual uncertainty and competitive uncertainty, since these are not "natural costs" and may themselves be judged excessive. When these considerations are taken into account, it would seem that undue importance has usually been attached to this point about deduction of losses.

[1] *Cf.* Dalton, *Inequality of Incomes*, 186 *seq.*

profit will not tend always to be reduced to this level of alternative opportunity. But even if this is not the case, it will not follow that profits will be so distributed by competition in the long run as to "bestow itself on all members of society equally." Some of the alternative occupations which the undertaker might have entered will themselves be blessed with monopoly advantage, as compared with less favoured sections of the community; and much of the gains of economic progress which are eventually "passed on" by the undertaker will be liberally shared by them. Economic progress will bestow its proudest share on those who possess some advantage, and leave only the crumbs of the residue for the Lazaruses of a dependent class.

The fact that this gain will tend to be capitalized, in so far as limitations on the supply of new undertakers protect it from dissipation by competition, merely expresses the tendency of such monopolies as can assume a transferable or money form to acquire a money value. Capital value will mean merely the transferable value, and the fact of capitalization will be the characteristic of that type of transferable monopoly which is known as property rights. This increment of undertakers' capital will not, therefore, of itself show any increase in the service which the undertaker performs; it will merely express the increased value of an existing service or opportunity. But a certain cumulative tendency in monopoly, which this fact of capital increment facilitates, will have the effect of increasing the services which each undertaker is able to perform. In so far as this elasticity of service is considerable, the share of undertakers in an increase of social wealth may be greater not only per person, but in the aggregate, than that of other persons. When the immediate change which has bestowed such blessings has passed, its tendency will not necessarily be to return to the old point of equilibrium which existed before the change was made, but to a new equilibrium in which the "normal" distribution of income may be different from what it was before.

This cumulative tendency of monopoly, attracting to a gain once realized increased opportunities of acquiring gain in the future, will depend in the main on two facts: first, that the marginal utility of money to the individual decreases the more of it he possesses; and second, that increased possession of capital involves an increased power of securing credit—of utilizing the economic resources belonging to others.

The principle of the diminishing marginal utility of money will tend to be a cumulative factor in the case of all owners of differential property rights. The reason of it is that money is of use to man only in so far as with it he can purchase utilities, and when by its aid he has satisfied his more urgent needs, his desire for more money to satisfy additional wants will be less intense. For this reason the man who has grown in wealth will find it more easy to save and to invest money and less burdensome to submit his money to risk and uncertainty; and his ability to perform services of this kind will consequently be increased. In addition, he may be able to secure a higher price for any personal service he may render, in so far as the increase in wealth has been common to his whole class. For the supply-price which will have to be offered to call forth the supply of any productive service will depend on two things: first, on individuals' own estimates of what the direct sacrifice involved in the service is worth in terms of money; second, on the extent of alternative opportunities which those persons possess and which exist as counter-attractions to them. It will follow, therefore, that if reliance for a certain service has to be placed mainly on rich persons, as, for instance, the service of educated ability, the supply-price will be high; for the reason that, valuing money less highly, they will measure any sacrifice dearly in terms of money,[1] and because they are favourably placed by their wealth for gaining access to other opportunities. Hence, the richer a man is, the greater will be his ability to perform income-bearing services, and in so far as the increased wealth is common to his whole class he will probably be able to secure a larger income for certain personal services which he already performs. Conversely, the poorer a man is, the weaker will he be in these respects. There would seem to be a tendency, therefore, for an advantage once secured to increase cumulatively, *ceteris paribus*, and for a position of disadvantage progressively to worsen.[2]

The fact that the increased wealth of an individual enhances his financial credit is of particular importance in the pursuit of the gains of undertaking. And here it is the fact of capitalization which is largely instrumental in fostering the cumulative tendency; since the ability to capitalize gains in a transferable form provides the security on which credit can be obtained. The undertaker, therefore, who can by this means or by his personal influence borrow capital from investors or from banks has an increased power of extending his business, securing economies of organization, building up a commercial connection and "goodwill," accumulating reserves against hard times or a competitive struggle, and facing larger uncertainties than he formerly dared. This, in so far as it is general, may cause the monopoly position of existing undertakers to be strengthened through an

[1] This will not apply directly to the sacrifice involved in saving; for here the exchange is not of effort against money, but of money in the present against money in the future, and the low marginal utility of money will apply to both. It will mean, however, that the sacrifice of present utilities will be much less for the rich man, and he will be enabled to save and to gain an income in this way much more easily.

[2] *Cf. also* the interesting point as to the "progressive difficulty" of increasing work-incomes, and the "progressive ease" of increasing property-incomes, made by Mr. H. D. Dickinson, *loc. cit.*, 191.

increase in the limitations on the entry of new rivals. Larger capital may be needed in future for new men in that line of enterprise; and the task and hazard of the newcomer may be increased. Moreover, the large undertaker will tend to be more vocal and influential in the demand for legal privileges, such as special concessions, subsidies and fiscal protection; and his increased command of capital may endow him with an addition in some degree to all the four species of bargaining advantage.

This cumulative tendency in monopoly, and the fact that the gains from any specific monopoly can be capitalized and so preserved in money form were entirely neglected by most nineteenth century writers; and by those who follow in the latters' footsteps they are still missed or relegated to insignificance. A monopoly bestowed by nature or by social institutions, if it can be transferred, will acquire a money value. A concession or franchise rights or letters-patent from the Crown can be sold, and the seller will thereby have acquired capital in the form of money, with which he can engross land and reap the rent of it, or which he can lend at interest, or spend in the education of his children. It will enable him, if he so desires, to invest it in valuable requisites of production, to the exclusion of those who have not the means with which to buy. Even though the original legal monopoly be abolished, the more general monopoly-power which the possession of money gives will remain; and whereas formerly institutions directly buttressed the monopolist's advantage, now they will do so indirectly by safeguarding him in the rights of owning property and of its use. It was to this aspect of Capital—as transferable monopoly-right, the product of differential advantage, not of abstinence—that Marx quite rightly charged his contemporary nineteenth-century thinkers with being blind. The turmoil and clamour of the attack on legal monopoly obscured from their view the institutional monopoly which persisted in a concealed and indirect form. They were hoodwinked by a change of vestment into neglect of the sameness of the personality beneath.

Blinded were they too to the influence of the cumulative tendency of monopoly in the development of capitalist undertaking. They do not appear to have noticed (except in the case of land) that the possession of a differential advantage opens opportunity of securing additional advantage in the future, and may thereby cause the major gains of social progress to be acquired by those possessed of property-rights. The institutional factors on which this tendency rests will be the laws of property, free contract and inheritance, and such things as Enclosure Acts, Game Laws and the Poor Law, which aid in placing and keeping the unpropertied in their appointed station of dependence. And in the absence of institutions specifically devised to produce the contrary, the tendency of progress under capitalist undertaking seems to be for the rich to get richer and the poor to get relatively poorer. The much-hymned " freedom " of the nineteenth century seems to involve not the diffusion of property, but more likely its concentration, not the release and opportunity for the propertyless, but probably their greater subordination.

CHAPTER NINE

ADVANTAGE AND CLASS

UNDERTAKERS are not alone in possessing differential opportunities which enable them to claim a larger share of the income of the community than their fellows. Landowners, large investors and rich professional men may do so as well. Moreover, undertakers themselves will not be a homogeneous group in this respect. There will be various grades among them—major undertakers, as we have seen, in possession of fairly large advantage, minor undertakers whose opportunities are much smaller ; and there may be any number of degrees of difference in between these. For this reason salaried managers of large businesses, barristers and civil servants may have larger incomes than many small employers of labour ; and our previous statement, that the profits of undertaking tend to contain a surplus above the worth of those alternative occupations which the undertaker might have adopted, must be amplified. It must be completed by the consideration that the alternative opportunities which are available will be different according as the grade of undertaker which is in question is high or low. The owner of a small cotton mill may make a higher income than he could have done as a clerk or an operative—the probable alternative to which he would otherwise have had recourse. But it is likely that this income will be very much smaller than that of the prominent commercial lawyer or the general manager of a railway company ; for these were only available alternatives for him in the most romantic of his childhood's dreams.

The most evident of the other types of advantage, besides undertaking, is that of landowning, for this had its character blazoned on the popular imagination in the "hungry forties" by the indignant Liberals of the new industry, who attacked it as the "land monopoly." This, indeed, is the oldest form of advantage, since formerly the greater part of land, together with the rights of forced labour, was held by the feudal aristocracy. Later, however, as these rights died, feudal holding became transformed into ownership, and acquired a money value at the touch of the new commercial wealth, which sought to convert land into a stable form of investment. Landowning, accordingly, became an attribute not of certain legal and customary rights but of the power of purchase, and it became one form in which the growing differential advantage of wealth was crystallized. It gives the advantage of possessing a share of a scarce economic factor, and of being able to draw in income continually the price of this scarcity.

The second form which advantage may take is the possession of superior educated ability. This may be, in part, a gift of nature, in that certain qualities of genius are born so rarely as to make their value high. But in large part it is the return to human cultivation—to the education and training which rears and tends and develops the delicate plant. Educated ability required for the intellectual professions has always been a scarce personal quality, and those fortunate enough to possess it have been able to command the price of that differential scarcity.[1]

Historically the growth of these professions seems to have been coincident with the growth of capitalist under-

[1] *Cf.* W. Smart, *Dist. of Income*, 319.

taking;[1] just as the corresponding services which monastic institutions performed for feudal society rose and fell with feudalism. Hence, the growth of undertakers' capital not only created a high money-demand for the services of lawyers, political administrators, managers, technicians, and so forth; it also enabled those who had made or inherited the profits of undertaking to gain easy entry into these professions through appropriate education or influence. And because the cost of this education imposed a bar to nearly all but the wealthy, the facility of supply into the intellectual professions remained very limited.

Third, the command over wealth may be converted into shares or mortgages, and an income be acquired as a return for the loan of money or for passive risk-bearing. The monopoly nature of this income is, however, not so evident, since the income may be acquired through the possession of the same shares as numerous poorer persons hold. The return on the money invested will tend to be governed by the supply-price of the marginal investment—that price which is just sufficient to induce the marginal investment to be made; and the return per unit of the large investor's resources will be governed in exactly the same way as that of the smallest *rentier*. The only difference will be that the sacrifice involved to the former in forgoing consumption and investing his money is much smaller than it is for the poorer man; and the wealthy investor accordingly will reap a "savers' surplus" because his income is in excess of the sacrifice he suffers.[2] This is the usual interpretation when the matter is analysed according to a theory of abstract factor-distribution. But when it is approached from the standpoint of distribution between persons, the matter becomes plainer, and the

[1] *Cf.* R. H. Gretton, *Eng. Middle Class*, 105–146–9; Belfort Bax, German *Society of the Middle Ages*, 224, and *The Peasants' War*, 9.
[2] Marshall, *Principles*, 830–1.

advantage which the rich investor enjoys is seen to be simply this. The function of advancing money and of bearing risks has a scarcity-price just as has the function of supplying ability or land. Those persons who are able to perform the function can, therefore, acquire a considerable income; and this the rich man is particularly suited to do on a large scale, just as he is suited to become a large landowner. In so far as the number of people who can do likewise is limited, the large investor has the differential advantage of wider opportunities. The competition of numerous small investors will affect him very little—as little as small marginal firms with limited capital and " goodwill " affect the large undertaker ; for, the cost of " saving " and of bearing risks is for these small investors fairly high, and it rises rapidly as either more is asked of them or resort is had to poorer sections of the community. This tends to limit the facility of supply of competing investors of any importance, and places the large investor in a protected position, similar to that of the owner of rich diamond fields who is protected by the rapidity with which the cost of extended search for new supplies increases.[1]

A wider survey of the distribution of income, therefore, shows profit to be but one species of the larger genus of monopoly income. The alternative occupations which are open to the undertaker will themselves contain some gain of advantage, and those who possess these alternatives will not enter business unless the expected profit is at least sufficient to cover the income to be obtained in these ways. For this reason, the excess of profit over possible alternative incomes will be only a part of the general monopoly gain that there is in profit, since the alternative will include this surplus, too; and for the various grades of undertakers, major or minor, it will be the width of

[1] In addition, the large investor may have more opportunities for sharing in the profits of undertaking than has the small investor, for reasons discussed above, pp. 93–4.

this choice of alternatives which will help to determine the "margin" in each case, and so will be a factor influencing the minimum supply-price.

These other kinds of advantage will always constitute a useful retreat for the undertaker who wishes to retire from the heat and burden of the day; and the gains of undertaking will continually tend to be transferred into these alternative forms by investments in land, in debentures, and in the suitable education of sons and daughters. It is on this account that, historically viewed, profit is seen as the central sun of the monopoly system. Profit, by creating capital increment, has been a principal cause of accumulation of capital in a comparatively few hands, which is the necessary condition of capitalist undertaking. With this accumulated capital its *parvenu* owners engrossed land under their ownership or retired to the blissful retreat of a *rentier*, or endowed their children with the education and social acquirements which had a scarcity value because only a few could possess them. On the other hand, the growing profit of undertaking itself created a keen demand for investible capital and for suitable land, and for the talent and ability of lawyers and brokers, experts and managers—even for artists to immortalize captains of industry and for harlots to enliven idle hours; and this money-demand, begotten by the profits of undertaking, endows these scarce services with a particular value. The fortunate possessors of these other forms of advantage may, on the one hand, merely intercept part of the gains of industry, which might otherwise have gone to undertakers or been transferred in part to the rest of the community. For instance, the fact that the supply-price of managerial ability is high will mean higher costs for the undertaker than if those services had been procurable more cheaply. On the other hand, they may aid in increasing the net product of industry and in swelling the undertaker's gains; as, for instance, when the existence of rich investors makes the price of capital and of risk-bearing lower *per unit* than it otherwise might have been.

In a survey of the distribution of income, therefore, the important dividing lines will not be those between undertakers and other employments, but horizontal lines which will separate some undertakers from others and will include in one grade all those who have approximately the same range of opportunities. Our difficulty is here somewhat considerable, since advantage is entirely a matter of degree, and one is faced with an almost continual gradation from the low to the high. In feudal times persons were definitely marked into social castes. When a monopoly is bestowed by legal grant it must for administrative reasons carefully define the group to which it is to apply. But a class is a more vague and fluid thing. One can, of course, delimit clearly certain forms of advantage: one can distinguish landowners in general from employers, and both of these from those who work for wages. But what of numerous small heterogeneous groups, such as shopkeepers and civil servants, workers with an allotment or with a few shares—how is one to classify these? One can only judge where their interests lie by the way in which they act—with which other groups they tend to amalgamate when the interests of their occupation are threatened, to whom they tend to be hostile, and to whom friendly; and in the absence of direct evidence, quite arbitrary criteria of distinction have to be used.

In a discussion of differences of wage and salary payments Prof. Taussig has made a classification into five fairly well-defined grades. Each of these grades, he indicates, forms a "non-competing group," in the sense that mobility between the grades is limited. For this reason those within a grade will have certain opportunities in common which they do not share with those in grades beneath them, and the facility of supply will tend to be smaller as one passes from each grade successively into a higher. Starting from the lowest, Prof. Taussig has made his classification as follows. First, there are unskilled day labourers ; second, responsible manual workers, such as miners, motormen, machine-winders ; third, we have skilled workers, like carpenters, machinists, and so forth. Above them, in the fourth grade, are the various occupations of the lower middle class, of which clerks and elementary school teachers are representative. Fifth is the large motley professional class, with its doctors and lawyers, scientists and civil servants. Of these "the first three groups," writes Prof. Taussig, ". . constitute a class by themselves, not only because the gradations of wages are continuous, but because their members have the same point of view and the same prejudices : they expect usually to live on their wages, not looking to the accumulation of property or an income derived from property. There is a common sense of dependence on manual labour and a common sense of separation from the well-to-do and possessing class. The last two groups have similar feelings of solidarity. . . . Business is the core of their doings."[1]

For our present purpose a similar classification is needed, but one that is not confined to wage-earners. At one end of the scale will be the manual workers, the first three of Prof. Taussig's categories. These will secure all except an inconsiderable part of their income from wages which do not include any gain of advantage. They will, as Prof. Taussig indicates, have certain interests in common which overpower the separatism of diverse occupations ;

[1] *Principles of Economics*, II, 144. The identification of the last two would seem, however, to be a little too close. In some cases, as will be shown below, there is more of a gap between the fourth and fifth than between the second and third. Also the separation of the first and second is, perhaps, more suited to American than to British conditions.

and their economic opportunities will be fairly narrow. The surest practical test of whether workers are to be assigned to this group seems to be the tendency to organize in trade unions for collective bargaining. There may be, however, an upper layer of this large group, often called an " aristocracy of labour," which secures a higher range of income from the lucky circumstance that their skill is relatively scarce or that they can restrict their numbers through the power of craft unions. Their opportunities will be a little greater than for the mass of manual workers, and hence their marginal indispensability will be higher. It is from this upper layer of the manual workers that there may be a fairly large flow of its more thrifty members into the ranks of minor undertakers. This is especially the case with skilled operatives in the Lancashire cotton industry, where special provisions are made for facilitating this flow.[1] But the superior advantages of these skilled workers have been considerably lessened during the last fifty years, and in particular during and since the war.

At the opposite end of the scale we shall find the major undertakers. These will be the big captains (or rather, generals, perhaps) of industry, finance and commerce. The top will be proudly crowned by the Stinnes, the Woolfs, the Rothschilds, the Leverhulmes, the Cowdrays, the Astors, the J. P. Morgans, the Vanderbilts. Close to them will be the large shareholders who control enterprises of wide range, such as oil companies, iron and steel combines, railways and banks. These are the men who can afford to face large and speculative uncertainties, can group uncertainties on a large scale, and can gain from wide connections and intimate information. The margin of this class is fixed by the earnings of the higher professions, which themselves possess fairly large differential advantages. From these groups prosperous lawyers and

[1] *Cf.* S. J. Chapman and Marquis in *Journ. of Ryl. Statistical Socy.*, LXXV, Part III, 301–4.

politicians, like Mr. McKenna, or technical experts, like Sir John Cadman, pass into the ranks of undertakers, and this horizontal flow is probably much larger than the vertical flow from grades beneath. It is this which acts as the chief limit on the indefinite increase of profits and ensures instead that the prosperity of undertaking shall be shared with the upper professional class and the large investors. Within this class there are quite a number of possible groupings of interest, according as advantages differ in their form and in degree. Undertakers in industry may have interests that diverge in some respects from those in finance and commerce, as we have previously remarked. Historically we find conflicts of interest between land and industry, as during the Free Trade agitation of "the hungry forties." There have been conflicts between commerce and industry, and one can notice conflicts between different groups of industrial interests to-day.[1] On the whole, however, there seems to be sufficient dovetailing and interdependence within this class to give it common interests on all general issues. It is not unusual for a large undertaker to have "a finger in several pies," and passage from one group to the other inside this class appears decidedly larger than the mobility from below.

Between these two classes at top and bottom exists a motley collection of groups, to which, for lack of better description, the term "middle class" is given. In the attempt to find a spiritual unity among them their champions often describe them as the battered victims of the two millstones which grind them from above and from beneath. There seems little doubt, however, that much less unity and decision exists within this "middle class" than belongs to its upper or to its nether oppressor. "Middle class," in fact, seems here to play the same *rôle* that the label "miscellaneous" plays for the baffled

[1] *Cf.* above, pp. 58 9.

cataloguer. At its lower edge we shall find the fourth of Prof. Taussig categories, the lower middle class; and this group can, perhaps, for our purpose be described most conveniently as the *lower brain-workers*. Composed of clerks and elementary school teachers, of supervisors and trade-union officials, it will be divided more or less clearly in its psychology from the manual workers. A chief feature will be its passionate "respectability," which is symbolized in its traditional umbrella and starched collar, with which by ungentle humorists it is so often mocked. As a rule its members will have small savings locked in safe securities, and they will mix the psychology of the *rentier* and his faith in the holiness of private property with the psychology of the black-coated salary-earner. But this division from the class beneath can be exaggerated, and is probably not so great as that which parts this group from the professional workers who are higher in the social scale. Its members may have some kinship with the upper ranks of skilled labour, and in abnormal times, especially times of rising prices and depreciation of fixed-interest securities, they may sink quite definitely into the ranks of labour. This tendency, indeed, was witnessed in Britain as the result of the war, which prompted much trade union activity among clerks and school teachers, and in certain parts of Central Europe the barrier between them and the manual workers has completely disappeared.

Akin to this group in many ways will be the numerically large group of *small property-owners*—small shopkeepers and publicans, peasant farmers, owners of small workshops and the like. Many of these will be a survival of the independent craftsmen of earlier times, rather than small undertakers, since they have direct relations with consumers and customers, and receive as "profit" very little more than the normal income of the small salary worker; while others will be in the position of the dependent small undertakers of the domestic system. The most accurate description is, perhaps, that the margin of undertaking cuts through the middle of this group. Those who deal direct with their customers, do not employ labour and undertake no commercial transactions of any importance will be little more than combined wage-earners and *rentiers*. Those, however, who enterprisingly branch out into commercial dealings and employ labour, may make some small profit on occasions, and so may get their foot on the bottom rung of the ladder of undertaking. In the whole of this group the property instinct will be stronger than among the lower brain workers, and they will, therefore, have conservatism more rooted in their natures. But in special circumstances it is quite possible that they may take common action for specific ends with the manual workers, as they did in the anti-trust and Granger movement in the United States during last century, or as sections of them did in the Russian Revolution of 1917.

Above them and divided from them by a fairly considerable gulf—a gulf of education, of speech, and of social manners and customs[1]—will be a grade composed of two groups, *small professional men* on the one hand, and *small business men* on the other. These small professional men will include teachers in private schools, university " dons," lawyers of moderate means, journalists, stockbrokers, commercial agents, managers. The majority will probably not fall into our category of minor undertakers. For, although they will almost invariably draw some income from invested capital, not only as holders of debentures and of preference shares, but as speculative holders of ordinary shares as well, they will, as a rule, take little active part in the control of business policy. The small business men, on the other hand, will control a certain

[1] For instance, the former have tea usually at 5.30 or 6, whereas the latter have it at 4 o'clock or 4.30. The latter usually employ servants, the former as a rule do not. The servile working man will probably call the latter " sir " and the former he will not.

range of industrial or commercial operations, and will obtain as profit a return that is probably larger, on the average, than they could get as small professional men, even if allowance be made for the greater risk of a business career. But their profits may be limited fairly seriously by a certain amount of competition from above, in the shape of major undertakers, better equipped for adopting new methods and for facing uncertainties, extending their scope and encroaching upon the markets of smaller men. This tendency grows fairly considerable as the large unit of control in business wins its way; and an important instance of it is to be seen in the suppression of middlemen in a large number of trades by large firms which act through their own subsidiaries or agents.[1] On the other hand, this may be wholly or partly compensated for by the new demands set up by the large firms for certain specialized products from smaller firms.[2] For instance, some boot manufacturers may buy ready-made soles from smaller firms, and steel firms may sell their steel to small cutlers to finish. Hence, the growth of a combine may at first eliminate numerous minor undertakers, but then may later summon a fringe of small business men around it to minister to its needs. But at any rate this tendency will add to the fluctuations and hazards of the small business man's career.

It may, however, happen, that these minor undertakers are in a definitely dependent position in relation to larger firms. With regard to small investors, Mr. J. A. Hobson has suggested that they may be at such a disadvantage as to be actually "sweated."[3] The small investor generally lacks adequate information, and is very liable to be the victim of speculative movements and of manipulations and frauds.

[1] *Cf.* Knoop, *American Business Enterprise*, 81–3. An important exception to this in Britain is the cotton industry (*cf.* S. J. Chapman *Lancs. Cotton Indy.*, 113 *seq.*, 138).

[2] Marshall, *Industry and Trade*, 234, 244–8.

[3] *Industrial System*, 132. *Cf.* also above, p. 114.

In the case of the small businessman, his specialization on meeting some particular need of certain large firms may place him in a somewhat similar bargaining disadvantage to the worker, though in a smaller degree. It may happen that the small firms which survive as appendages to large firms will have much resemblance to the dependent domestic manufacturers of the seventeenth and eighteenth centuries, who worked for merchant manufacturers on commission; and many small businesses may find difficulty in buying raw material and selling finished products if those markets are at all " engrossed " by large marketing firms.[1] But however this may be, the profits of small men are likely to be limited much more stringently than those of major undertakers, because of the narrower opportunities of the former and the relatively greater facility of their supply.

It follows, therefore, that in general minor undertakers will have more distinct groupings among themselves according to their several interests than will large business men. For, having a smaller control of resources, they are more likely to be specialized to one sphere, and consequently to be dependent on an advantage possessed in one sphere alone. They will be less in a position to have " a finger in several pies "; and if they do distribute their capital among widely different enterprises, this fact is likely to preclude them from taking an active and controlling part in industrial policy. In consequence, this intermediate grade, called " the middle class," will be much more divided into separate groups than will either the manual workers or the upper class of major undertakers and higher professional men. It is divided within itself as much as it is itself separate. It is a collection of groups, some of which on occasions may find sympathy

[1] *Cf.* Marshall, *Industry and Trade*, 245. This disadvantage may, perhaps, be seen in particular in the case of agricultural producers with small capital (*cf.* pp. 167, 169).

with the wage-earners, while others will seek protection beneath the wing of the class to which they aspire. The cleavages in it are obscured by a continual passage of persons from one group to another, ever pressing upward to the acquisition of wider opportunities ; but the facility of supply on its upper edge will be more restricted than it is below.

Economists and social historians have, of course, fully recognized the existence of economic groups. The fact of differentiation of this and of a more detailed kind is the primary feature, as we have seen, of Prof. Usher's theory of the development of the undertaker ;[1] and it is this fact which in economics is the *raison d'être* of exchange. Curiously enough, however, the existence of larger communities of interests—groups of groups—constituting classes has usually been denied. The word has been accepted as a convenient classificatory term, and used rather loosely, but that is all ; and two recent writers have gone so far as to declare that "classes are now recognized as symbolic fictions."[2] There is no essential difference in kind, it is urged, between a group of employers as contrasted with a group of wage-earners, and a group of producers in the mining industry as compared with producers in the cotton industry.

This seems, however, to be a misconception. There appears to be quite sufficient evidence of a wider grouping of interests, which follows the line of the sharing of a common advantage and a common range of opportunities, to justify the consideration of a class as a definite entity in history and in economic theory. One expression of this wider grouping seems to be political. In history a very large field of political events has very little explanation that is worthy of the name unless we can assume the influence of some broad social grouping—a class. One

[1] *Cf.* above, p. 9.
[2] Ogden & Richards, *Meaning of Meaning*, 194.

need only mention the political changes of the Tudor period or of the early nineteenth century, or the startling rise of modern Imperialism, or the political struggles in Flanders in the thirteenth and fourteenth centuries, to which we shall have occasion to refer below. In current politics there are frequent instances of the " lobbying " of Members of Parliament by some industrial group to secure a tariff or a subsidy or some other concession for their industry ; or one may hear of the liquor interests, perhaps, running candidates to oppose Prohibition. But these affect the general trend of political development and the balance of political power in the long run comparatively little ; and it would be foolish to assert that the political influence of economic groups is confined to such spasmodic and specific cases as this. Whenever legislation touches some fundamental economic issue, by which the livelihood and income of a large section of the community is likely to be affected, then there is clear expression of much wider groupings, which may take sustained political action having a lasting influence on the balance of political power. This is especially seen on the continent of Europe at the present, when every political act touches the raw wound of some economic hurt. Then large groups of interests speak with united voice, overriding the details of minor difference : one hears the voice of landed interests, perhaps, on the one hand, or the demands of finance ; one sees the industrialists pressing forward a common political programme, and, on the other hand, the trade unions bending every sinew in the bid for control of the political machine.

Another evidence of this wider grouping is to be found in social habits and manners of life. Most persons can tell by instinct from his speech and manners and appearance to what social class a man may belong. Obsequious persons, such as university landladies and servants, have seldom much difficulty in detecting whom to address with fitting humility as " sir," and with whom they can be on a more friendly footing. The distinction will reveal itself most clearly in the matter of marriage. There will be certain clearly defined barriers which it will be considered a matter for comment if the marriage ties cross; and to the reality of such barriers many of the most poignant conflicts in romantic literature have testified. It will not be thought surprising if a miner marries the daughter of an engineer, or a wealthy business man marries the child of a prosperous lawyer; but it will be an occasion of much remark if the miner married the daughter of a mine-owner, or the prosperous lawyer married a Lancashire cotton-spinner. The education of a gentleman tells him fairly clearly what manner of woman he may make his mistress and what manner of lady he may take to wife.

The existence of such classes, finding expression in political and in social differences, is, in fact, to be expected from the existence of differential advantages in various forms. For instance, one would expect those who have an advantage in the form of land to have certain common interests in its preservation and to unite against any institutional changes which tend to harm it. Likewise, one would expect those who suffer from a common disadvantage and are in dependence on some favoured group to find a common bond of resistance to all measures which increase their dependence and to rally to any attempt to lessen the monopoly by which they believe themselves oppressed. It may be that different forms of monopoly, such as land and commercial privilege, may be so distinct as to keep their members politically hostile and socially apart; but, on the other hand, there may be sufficient dovetailing and interlocking—men of commerce who have become landowners, landed gentry who have adventured part of their wealth in trade—to cause them to mingle socially and to have sufficient common interests to constitute them a class. Conversely, some common attitude towards monopoly—an attitude of defence or of opposition or of desire for acquisition—seems to be the only economic factor sufficiently fundamental and comprehensive to lay the basis of this wider social grouping. These classes will not be rigidly delimited, as are castes established by law or custom, since advantage is entirely a matter of degree, and there will be many hesitant doubters on the margin who are perplexed as to the direction in which their interests lie. Classes will exist rather as centres of gravity of common interests, to which at a time of crisis the numerous heterogeneous groups will be drawn.

While, therefore, the two strata at the ends of the social scale seem to show evidence of sufficient common interests to call them classes, there is apparently no such reason for describing the so-called " middle class " by this term. No considerable or consistent interest seems to belong to them in common. They do not seem to be distinguished by any unity of social manners or customs. Whether in the future one group among them may become so important as to unite other groups with it and become a political and social force, history has yet to show. Such future eventualities have at any rate not as yet cast any shadow before. The minor undertakers, as a rule, have as much in common with the major undertakers as they have in conflict with them.[1] Small property-owners seem too rootedly individualistic to form the nucleus of such a class. The lower middle class show more signs of uniting with the working class, if they take united action at all. It seems more likely that at a time of social crisis these groups would divide themselves and pass either to the right hand or to the left. True, at some periods of history small property holders or small undertakers have formed an actual class ; but this has been when the form which their advantage has taken was different in kind, and not merely in degree, from that of the larger undertakers ; and for this reason they were driven to defend one form of advant-

[1] See above, p. 136.

age against the encroachments of another with which they had no economic or social tie. For instance, in America the small property-owners were associated mainly with land and the large capitalists with trade and industry; while in Britain in the seventeenth century the small masters had their interests in production, while the large undertakers had monopoly of commerce. At present the only sign of such a possibility is in certain countries of Central Europe where peasant leagues—the so-called Green International—have been formed. But this has shown few signs as yet of developing into a comprehensive movement with a distinctive social policy. The division in the villages between rich and poor peasants is often greater than the common interest which binds them together; and the case of Stambolisky, the Bulgarian peasant leader, who was overthrown with surprising ease by a counter-revolution, seems to afford some illustration of the weakness which such a movement suffers in the individualism of the peasant, who on promise of gratification of some immediate demands returns to the old routine of the village and to his former narrow horizon.[1]

[1] *Cf.* L. B. Namier in *Reconstruction in Europe* (M.G. Comm.), IV, 366.

CHAPTER TEN

Monopoly and Social Theory

It has been customary to regard the difference between that form of society which we have termed classless individualism and the society of to-day as merely a difference in scale and complexity. The system which is seen in the first case continues unchanged in general character in the second case and is merely expanded to a larger scale. Markets are wider, the division of labour is more complex, the units of control are greater ; but that is all. The change has been one solely of organic growth ; and economic principles, though they will differ in their application, need not alter their nature in the two cases.

If, however, the theory of monopoly and advantage, which has been outlined in the preceding chapters, be true, it will follow that the distinction is much more significant than this ; and the neglect of such distinction will have very serious theoretical and practical results. To draw one's assumptions, as did the classical economists, from a state of classless individualism and then to apply them to a system of capitalist undertaking is to commit a grave fault ; for, in the former system the extent of monopoly and advantage will be so small as to be virtually negligible, while in the latter system it will constitute the principal feature.[1] It is in this confusion, indeed, that the chief fallacy of *laissez-faire* consists : it is a doctrine

[1] *Cf.* Wieser : " A great many theorists have written the value theory of communism without being aware of it, and in doing so have omitted to give the value theory of the present system." (*Natural Value*, 61.)

which, like much of the democratic theory accompanying it, would be very fair wisdom in a classless society.

Its disciples in applying the doctrine direct to nineteenth century conditions merely displayed a strange blindness to the fundamental realities of the new system which they were championing. Most of them appeared to identify this new system with a classless society in naïve unquestioning assurance. "Far from the masters having any natural power to oppress the working classes," wrote Harriet Martineau in exposing the folly of Trade Unions, "the working class hold a power which may make them the equals in independence of any class in society."[1] Mr C. Knight, who wrote and published simple books for the education of working men between 1830 and 1860, made bold to declare that, given only legal freedom of the worker "to work when he please and be idle when he please," then the wage-earner "is in the full uninterrupted possession of his property. He is upon a perfect legal equality with the capitalist. . . . He may assure himself that if he possesses anything valuable to offer in exchange for capital, the capital will not be fenced round with any artificial barriers, or invested with any unnatural preponderance to prevent the exchange being one of perfect equality and therefore a real benefit to both exchangers."[2] No wonder that an anonymous pamphleteer could see no more in trade unions than societies "whose power is based on outrage, whose practice is tyranny, and whose end is self-destruction"![3] McCulloch declared as one of the essential foundations of a good economic system that each should be free to "use the powers with which nature has endowed him in any way, not injurious to others, that he considers most beneficial," and thence proceeded to denounce such legal monopolies as "give to a

[1] *Illustrations of Political Economy*, Vol. IX, 52.
[2] *Capital and Labour* (1845), 59.
[3] *Tract on the Character and Effects of Trade Unions* (1834).

few individuals the exclusive power of carrying on certain branches of industry."[1] But he omitted any mention of institutional factors which might have very similar results, even when complete freedom from legal monopolies had been obtained. J. B. Say maintained that, given only freedom from the interference of authority, the lure of profit brings it about that "the nature of the products (of industry) is always regulated by the wants of society."[2] Even Adam Smith, with his acute insight and catholic sympathies, believed that the rich "are led by an invisible hand to make nearly the same distribution of the necessaries of life which would have been made had the earth been divided into equal portions among all its inhabitants; and thus, without intending it, without knowing, advance the interest of the society, and afford means to the multiplication of the species."[3] So obsessed were these early economists with the specific institutions which they sought to abolish, that in blindness to the persistence of institutional monopoly they regarded the new *régime* of their fond desires as the unfettered expression of forces that were purely natural.

But the mistake is not confined to the writers of a century ago, who were too close to the new phenomenon for one to expect them to see it in true perspective. The error still reigns almost unchallenged in economic theory at the present day. Prof. Clark sets out to show "that the distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give to every agent of production the amount of wealth which that agent creates."[4] Prof. Edgeworth has stated that "competition between all classes should be unrestricted," and proceeds to enunciate

[1] *Princs. of Pol. Economy* (1825), 76–7.
[2] *A Treatise on Pol. Economy* (tr. C. P. Prinsep), Vol. I, 190.
[3] *Theory of the Moral Sentiments*, Part 4.
[4] Clark, *Distribution of Wealth; cf.* the remarks of Prof. G. F. Boucke *The Devt. of Economics*, 308.

the principle that " to this proximate end *laissez-faire* is a means. A maximum of wealth will generally be obtained by unrestricted competition." The cases where this principle does not hold good he is content to treat as " exceptions," which are of insufficient importance to destroy the general presumption in favour of *laissez-faire*.[1] It is clear that this classical assumption was a dominating influence in the whole of Marshall's treatment of the subject, filling him with apprehension lest in making note of exceptional cases, " if one grants an inch, people will grant an ell."[2] Again, Mr. F. H. Knight postulates as one of the necessary conditions of perfect competition : " perfect, continuous, costless intercommunication between all members of the society." " Every potential buyer," he says, " knows and chooses among the offers of all potential sellers and conversely ; " adding in explanation that " each person enters into economic life on an absolute equality with others, or not at all." And this assumption he actually declares to be an " idealization or purification of tendencies which hold good more or less in reality."[3] In the real world there is " economic friction " which obstructs these tendencies and makes exception to the general rule, but that is all. The results of this confusion in the theory of profits, where it is assumed that the gains of undertaking continually tend to be distributed over the community, we have already mentioned ; and to the misinterpretation of such modern political developments as Imperialism and the Labour movement, which it induces, we shall have occasion to refer below.[4] The error is apparent in the opinion that the various agents of production are all dependent on one another in a similar way ; and that an employee's " dependence," for instance, on his employer is the same kind of relation as his " depend-

[1] *The Advancement of Science*, 1923, Econ. Section, pp. 4–5.
[2] *Cf.* Prof. E. Cannan's mention of this remark in *Economica*, Nov., 1924.
[3] *Op. cit.*, 77–9.
[4] Chap. 21.

ence " on other employees.[1] Again, it shows itself in the common conclusion that there is necessarily harmony of interests between capital and labour, since an increase in the supply of one generally raises the demand price for the other; whereas, on the contrary, the interests of workmen and undertakers may well come into opposition if certain institutions tend to lower the income of the former and to swell the gains of the latter. Accordingly, of those who rely on " economic chivalry " as the solvent of industrial unrest one must say in the words of Dr. Marshall that " while their sympathy with suffering must always claim our respect," " the scientific foundation of their practical proposals " seems of doubtful validity. But more eloquent than all these witnesses is the evidence of a general silence, which consents to hide conveniently under " economic friction " the most characteristic feature of capitalist undertaking.

But more important, perhaps, than what is explicitly stated in the exposition of pure theory is the ethical judgment that is usually implied by the manner of exposition. For, in popular expositions of economics implied judgments are bound to play a very prominent part, and in the guidance of practical policy differences of a most essential kind may be made by what in pure theory might be lightly regarded as mere differences of emphasis.

The identification of existing society with a system of classless individualism—save in a few " exceptional " features—leads to a particular implication of this kind which is surprisingly common in all economic thought and dominates the field of applied economics to an alarming extent. It is the conclusion, which the theory of distribution is usually assumed to imply, that (with the possible exception of landowners and some *rentiers* and in the

[1] *E.g.*, " The individual workman, because of his incompleteness as an economic unit, stands in relations of positive dependence both on his employer and on his fellow workmen " (D. H. Macgregor, *Industrial Combination*, 3).

absence of "economic friction") persons tend to secure an income in proportion to some "service" which they contribute to society. This is the gist of Prof. Clark's productivity theory of distribution, epitomized in the statement, which we have already quoted, that "a natural law" tends to "give to every agent of production the amount of wealth which that agent creates." It is to be seen in such a typical statement as that of Sir J. A. R. Marriott, that since profit "represents the skill of the person who 'runs' the concern, neither the wage-earner nor the consumer has any claim, economic or ethical, to any portion of this net profit."[1]

This Service Theory of distribution seems to owe its popularity to a loose usage of words. In one sense, of course, no payment can be obtained except for a service rendered to someone; but this is no more than to say that you cannot charge *more* than the traffic will bear, or to say that there can be no value without utility. In this sense the most extortionate usurer or monopolist is getting no more than the "service" he is rendering; but it does not follow that his payment is *in proportion* to the "service" he renders. Generally, however, the Service Theory is made a corollary from the fact that payments are made to agents of production according to the *marginal* service contributed. But since institutions play a large part in determining where the margin is—*e.g.*, by restricting the supply of some services and by enabling some persons to supply more of a given service than others—the corollary should really be that an agent tends to be remunerated according to the marginal service which *existing social institutions permit or enable it to render*. Amended in this way, the statement loses most of its original meaning; at any rate it loses its force as an ethical judgment and as an anticipation of a comparative study of systems of enterprise.

[1] *Economics and Ethics*, 146. *Cf. also* W. Smart, *Dist. of Income*, 324 seq.; and above, p. 68.

This particular error would, therefore, be avoided if an analysis of capitalist undertaking were made to include a theory of monopoly and advantage. For then it would be clear that the incomes of various persons and classes of the community were in the main determined by the monopoly and advantage, institutional or natural, which they enjoyed. For instance, as our previous analysis of profits has tended to show, the income derived from undertaking is not proportioned to the uncertainty which is borne, and still less to the real burden of the uncertainty which the recipients of profits bear.[1] But even if this connection between profit and uncertainty did exist, it would not follow that profit is a "natural" cost, in the sense that it would be necessary in any system of enterprise; for the reason that part of the uncertainty borne may depend on the nature of the economic system. An individualist form of society will itself create much additional uncertainty that would not necessarily under other conditions exist.[2] Prof. Hardy has aptly illustrated the point thus: "If we had numerous cases of high profits in certain lines caused by social disapproval of the enterprises, we should have to develop courses in odium and odium-bearing to complete our survey of the question of profits."[3] The payment for odium-bearing would here only be a "necessary cost" for a "necessary service" under certain social conditions: it would be not a "natural" but an "institutional cost."

But even in quarters where adherence to the Service Theory would be hotly denied, the theory seems to have left its sting in a presumption as to the kind of explanation for which economic analysis should seek, and which when found should be deemed sufficient. There exists a fairly general presumption that an economic payment is

[1] *Cf.* Hardy, *op. cit.*, 40–1.
[2] *Cf.* above, pp. 37–8.
[3] *Op. cit.*, 40.

explained, if some economic service can be discovered for which that payment is made. The explanation usually takes the form of some service which is deemed necessary under any system of enterprise. For instance, middlemen's profits are explained by the service they do in bringing the manufacturer and the retailer together, or in bearing risk and uncertainty. But this is not necessarily a full explanation. It seems fairly clear in numerous cases in the history of commerce that middlemen made large profits because of the *inability* of craftsmen and consumers to reach one another, and because of the *fewness* of the persons possessed of capital who could perform the service of "go-between." It is probably the case at the present time, when so much is being heard about middlemen's profits, that an important part of an explanation is the fact that middlemen are in a position to enjoy an element of monopoly and of bargaining advantage relative to poorer agricultural producers, and much of the economies which producers and consumers make by co-operative marketing may be due to the removal of these monopolistic conditions.

The theory of monopoly is also of primary importance to the study of social development. The rise and fall and conflict of classes in defence of or in opposition to some form of monopoly may be significant factors in social change; and the neglect of this will tend to lead to a colourless, unconvincing description of the process of development, and to a treatment of political, economic and moral factors in watertight compartments, each evolving by the aid of some *a priori* principle of progress—or similar *deus ex machina*—of its own. The description of the rise of the modern industrial system—it can scarcely be called an analysis—has been singularly unsatisfactory. Markets have broadened and the division of labour has grown complex; but the rest is usually left a sacred mystery, or interpreted merely in terms of personal qualities of enterprise and of thrift.[1] But this interpretation seems to be, in Marx's description, purely "idyllic."[2] No doubt, thrift and personal qualities played some part in the accumulation of capital and the creation of an undertaking class. But it seems very doubtful whether they played a major part.

In tracing the growth of the modern system a pure instance of classless individualism with which to compare it is hard to find. But we can see definite approximations to it in those elementary forms of industrial life which preceded more complex organization. In the case of European countries the features are obscured a little by the fact that urban life, built on trade and petty industry, grew up within or alongside pre-existing feudalism. Urban life, nevertheless, in its beginnings was in the main characterized by absence of monopoly and advantage. The relations at first within the gilds were for the most part those between independent producers. The master-craftsmen earned little more than his journeymen, and the latter was more of a companion worker than an employee, having a fair chance of rising to set up as master on his own. This had a double effect: it limited the reward which masters could obtain for themselves, because their supply was freely facile, and it precluded the formation of a class of journeymen with separate interests of their own. Freemen of the town were, with certain exceptions, on a footing of equality and had an equal share in the politics of town government; and at the same time in the early towns admission to the burgess-ship was fairly free.[3]

But, perhaps, the purest example of this type is to be found in the early stages of development of new countries,

[1] *E.g.*, "the creation of Capital depends on Thrift" (Kirkaldy, *Wealth*, 121). "The creation of capital is . . . the result of prudence and foresight" (Seligman, *Princs. of Econs.*, 319).
[2] *Capital*, Vol. I, 737.
[3] *See* below, Chap. 14.

where the complications of an aristocratic land-owning system were absent. In the pioneering days of the Middle West of America, for instance, most members of the community had some property and few had a great deal. There was plenty of free land to be had for a little trouble, and as a result labour could only be hired by the offer of a fairly attractive wage. At the same time master artisans, traders and farmers were subject to continual competition and were not able to secure very large gains. Some chanced to be near favourable markets and to have lower costs; some farmers had more fertile land than others; and the favoured ones earned a " producers' surplus." In some cases, even, these advantages were the basis for securing further advantages later on. But, as a rule, these were the full extent of differential advantages and were quite different in scale and significance from those which exist in modern communities: the inequalities of wealth which arose from them were much smaller and were the exception rather than the rule. It was from this type of community that there arose that strong and virile brand of democratic doctrine and that sturdy spirit of individualism which was personified in Thomas Jefferson. In time, however, this society was encroached upon by the land speculator, large and small, and by the rich merchant and banker from the eastern cities; and a landless working class began to be formed beneath it by the successive waves of foreign immigrants.[1] The formerly independent small masters " became small contractors employed by the merchant capitalist, and in turn employing one to a dozen journeymen"; and the system gradually became subordinated to the merchant undertaker whose " strategic position in the newly-widened markets . . . gave him a range of options in the purchase of products and

[1] Coman, *Ind. History of U.S.*, 157–164; *also* Veblen, *Imperial Germany and the Industrial Revolution*, 316–8.

consequently power to compel employers and labourers to compete severely against each other."[1]

These facts seem to indicate that the break-up of classless individualism and the transition to a more modern system tended to occur as certain groups, either inside or outside, secured for themselves a position of monopoly. Inside the early towns in Europe as we have seen, there existed certain elements of differential advantage, which in the fulness of time might have wrought a cleavage between a privileged and an unprivileged class ; and this tendency was aided by the continuous increase in the town population, which increased land values and hence the wealth of original owners of town land, and also swelled the ranks of journeymen who competed for employment. But more important than this seems to have been the framing of monopoly by definite institutions. Gilds became exclusive, restrictions were placed upon journeymen·setting up as masters on their own, and later special mercantile gilds and companies claimed the right to monopolize certain branches of trade. In this process the use of political power was of considerable importance, first in the town government, and later in the councils of the nation, to secure charters of incorporation and specific legal monopolies. At the same time landowning gentry began to participate in commerce, and the servile class began to seek urban employment, and in this way the class differentiation of the feudal system imposed itself on the towns. Later, the richer merchants secured control of the Gilds and Companies and excluded craftsmen from trading in their raw material or in their finished product ; and the system of Mercantilism gave them the monopoly profits of foreign and colonial trade. The craftsmen sank into semi-dependence, and an ever-growing journeyman class had no hope of rising to be producers and property-

[1] J. R. Commons, *History of Labor in U.S.*, 103–4 ; *cf. also* Blanche Hazard, *The Organ. of the Boot and Shoe Ind. in Mass. before* 1875, 49–50.

owners of themselves. On the one hand undertakers capital was accumulating and the habits of economic adventuring were being laid ; on the other hand a cheap and pliable labour force was being prepared to be organized and drilled in new industrial methods. By the time of the Industrial Revolution, therefore, class differentiation with its wide extremes of opportunity was already developed. It needed no longer the crutches of specific legal grants : to maintain the basis of the *status quo* was all that the law need do. The transition from Mercantilism to *laissez-faire*, accordingly, was not from monopoly to freedom, as is commonly assumed,[1] nor from "artificial" organization which "disturbs the natural course of things" to a natural order "which necessity imposes" and which "is promoted by the natural inclinations of man."[2] It was merely the abandonment of *de jure* monopoly in favour of the *de facto* monopoly which the former system had reared and fostered. The fifth of the limitations on the supply of undertakers which were mentioned in Chapter 6—legal grants of monopoly—merely bowed before the supremacy of the first four and later of the sixth. When these latter had risen to maturity, the expansion of the scope of undertaking was not aided, but was rather hampered, by the continuance of the interference of the law.[3]

This fact that monopoly in some form was an essential condition of the growth of capitalist undertaking was, indeed, clearly seen by Gibbon Wakefield and was the basis of his colonial policy, although he did not state the fact in so many words. What impressed him was that capitalist undertaking could not take root, or at least was severely handicapped, in new countries where free and equal individualism prevailed. The reason, as he saw

[1] *E.g.*, H. Levy, *Economic Liberalism.*
[2] Adam Smith, *Wealth of Nations* (ed. Cannan), Bk. III, I, 356–8.
[3] *See* Chap. 20.

it, was that there existed no class of labourers in a position of dependence. "Combination and constancy of labour," he wrote, "is provided for in old countries without effort or thought on the part of the capitalist merely by the abundance of labourers for hire. In colonies labour for hire is scarce." Accordingly, he advocated the abolition of free land grants and the fixing, instead, of a price for land, with "the sole object . . . to prevent labourers from turning into landowners too soon."[1] A precisely similar problem presses in certain African colonies at the present day. An adequate supply of labour is not forthcoming to work the plantations, until the native land reserves have been severely cut down and the natives themselves heavily taxed; and from the planters' point of view this is often the only alternative to forced labour.[2]

But, as we shall have occasion to see later, this form of monopoly, producing class differentiation, was not the only one that has marked the course of history. There was the monopoly and advantage which each town attempted to secure for itself by elaborate trading regulations, and later under a national system of Mercantilism the merchants of one nation sought to establish themselves in a position of monopoly in foreign markets and to exclude alien rivals from their coveted colonial preserves. In the one case the system of monopoly stimulated the power and prosperity of those nuclei of the modern world, which might otherwise have been overwhelmed and stifled by the darkness of feudalism. In the other case it aided that accumulation of capital which later made modern industrialism possible. At the same time the system led to much struggle and conflict, to violent rivalry between

[1] *The Art of Colonization*, 170 and 347; *cf. also* R. C. Mills, *Colonization of Australia*, 96 *seq.*; and, for the whole matter, Marx, *op. cit.*, 774-800.

[2] J. H. Harris, *The Chartered Millions*, 126–7, 194, 259, 272; L. S. Woolf, *Empire and Commerce in Africa*, 338–351; Norman Leys, *Kenya*, 176, 294, etc.

towns and leagues of towns, each for the advancement or defence of its monopoly, and later to sustained and exhausting wars between nations for the rights of commerce and colonies. In more recent years this colonialism has again appeared, now in another form, and similar problems of monopoly and the conflicts it engenders thicken on the horizon that our Cobdenite grandfathers thought so clear.[1]

Considerations of class and national rivalries such as these that centre round institutional monopoly, must not be disregarded as irrelevant in studying the effects of a system of enterprise and in estimating its contribution to social welfare. The custom of economists has been graciously to withdraw from such territory in favour of the sociologist, and the latter in assuming lordship has tended to sever the matter from any economic connections it may have. But this attitude is a wrong one. For, in so far as a system of enterprise is based upon monopoly and perpetuates monopoly as essential to its existence, then such psychological and political consequences as monopoly involve may affect economic welfare and economic progress as powerfully as the sloth or energy of captains of industry may do. The disturbances of class conflicts or the political changes which class interests induce can with very good reason be claimed as relevant evidence in the judgment of enterprise in which we are at present concerned. But such evidence is seldom submitted, and is rarely considered by those who pronounce a verdict. Still less is it taken into account by those who act upon the verdict's sanction.

[1] *See* Chaps. 14, 17, 21.

CHAPTER ELEVEN

THE EFFECTS OF MONOPOLY

IT will follow from the considerations which have been advanced in the last two Chapters, that one of the important effects of monopoly, which in the problem of the undertaker has not hitherto received enough attention, is the tendency to rivalry and conflict to which monopoly tends to give rise. How far conflicts existing in the world of to-day are to be ascribed to the monopoly on which capitalist undertaking is based is a problem too intricate for analysis in this present work ; and a brief historical survey of the salient facts in another Chapter is all that can be attempted.[1] But even in the absence of direct evidence from facts it seems not unreasonable to suppose that monopoly will have *some* effect—if only that of aggravation—of this kind. There is always at least the chance that it may give occasion for a psychological tendency to antagonism and distrust on the part of dependent groups and classes towards those in a position of advantage; and in so far as the monopoly depends on certain institutions, these may become in time the object of bitter controversy. If this happens, the psychological unity of the community may be seriously broken up ; society may cease to have the " general will " which is supposed to exist in a harmonious democratic community ; its sections may not respond to the same idealistic appeals, and their latent antagonism may prevent them from subordinating their own sectional interests to the success of the whole. If this situation is at all serious, harmony can only be

[1] *Cf.* Chap. 21.

obtained by coercion or by a series of compromises, of which the terms are dictated by the respective strength of the parties concerned ; and purely strategic considerations may tend more and more to override any considerations of maximum welfare and efficiency. A system of monopoly which produces class differentiation may also produce class struggle ; and the possession by a nation or an empire of a monopoly, which rests in part on institutional factors, is not unlikely to provoke the scheming jealousy of rivals and the revolt of those who suffer from a corresponding disadvantage. The end may be open conflict either between different groups aiming to secure monopolies, or between a dependent nation or class and the monopolist nation or class. Of such struggles we find abundant instances in history : of the former, the conflicts of the mediæval Italian communes and of the Mercantilist nations of the 17th and 18th centuries, or the imperialist rivalries of modern nations ; of the latter, we find the War of American Independence, or the class struggles in the Lombard Communes and the Netherland and German mediæval cities. In conflicts of this kind a considerable part of the economic resources of a community may be consumed, either in their conduct, or in their prevention ; and, when they do take place, their repercussions on the economic system may be very large, as we see only too graphically in the legacy of the late war. In considerations of systems of enterprise, which have monopoly in some form as a principal feature, the possibility of this type of disturbance must, it seems clear, be taken very carefully into account.[1]

[1] *Cf.* A. Loria, *Economic Synthesis*, 249–297. The reason why this class of consideration has not as a rule been given adequate weight is, perhaps, as has been hinted above, because it falls entirely into the domain neither of the economist nor of the political theorist, and in consequence its significance is missed by both. This error seems to be an instance of the fallacy of composition. The strict departmentalizing of social study—most essential and useful for many purposes—has led to a neglect of the causal connections which cross the borders of these departments. In *compounding* by addition the results of each separate department of study these particular relations are missed. The result-

The more strictly economic aspect of the restrictive effects of monopoly has, however, received fairly careful attention at the hands of economists. It will be fairly evident that its presence will prevent those conditions of static entrepreneur adjustment, which were described in Chapter 3, from being perfectly realized. For instance, the presence of deliberate monopoly by restricting output will deprive the community of certain net utilities, because goods which might have yielded a surplus of utility over costs are prevented from being produced.[1] To look at it in another way: the restriction of output causes economic resources to be held back from the productive use in question, and as a result causes them to go into other uses where their productivity is not so great.

Where institutional monopoly is present the community suffers a somewhat similar loss; a loss which in this case is due mainly to the maldistribution of personal resources. For instance, the restriction of the supply of undertaking ability mainly to one class, or the restriction of the competition of foreign undertakers may foster inefficient persons and businesses, when their place might have been taken by more efficient rivals. The two forms of monopoly which have just been discussed share in this type of disadvantage.

There is a more general disadvantage of monopoly, however, displaying a maldistribution of resources and a faulty adjustment of marginal costs and utilities for other reasons. When in an exchange the advantage is weighted on one side of the deal, the net utility (*i.e.*, the surplus of utility over cost) which results from the deal is less than it otherwise would be. For purpose of simplification we

ing error tends to be great or small according to how far politics, economics, etc., form less causally independent groups of phenomena than has been assumed. (*Cf.* Chap. 24.)

[1] This is often expressed by saying that monopoly reduces "consumers' surplus" (Marshall, *op. cit.*, 486–492). This conception, however, seems a little clumsy, and the simpler way of expressing the fact seems preferable.

can imagine the relation between the undertaker and his employees as being an exchange of effort and sacrifice offered by the latter against a certain real income offered by the former. Since the undertakers have the advantage, they get a relatively large amount of effort and sacrifice in return for the payment of a relatively small amount of real income. The difference between what they have to pay and what they can obtain as the product of that effort and sacrifice is their profit. The result of this transaction is that in the aggregate less net utility or economic welfare is yielded than would otherwise be the case. For the effort and sacrifice cost the employees relatively a great deal. On the other hand, since as a rule the more a man has the less utility he gets from any addition, the extra income obtained by the undertakers out of the transaction yields to them less utility than it would have done if it had gone to the employees. The balance between the marginal cost of effort and the marginal utility which the effort yields is, accordingly, destroyed.[1]

The same point can be made in a different way, and here we can discern more closely its significance from the standpoint of entrepreneur adjustment. The only means of measuring costs and utilities and productivity is in terms of money-price. The result of the unequal distribution of money income which monopoly produces will be that money is precluded from being a complete and adequate measure. The money-price offered by the rich for what they consume will be higher than the money-price which the poor will be able to offer for the things they need. Money will always be able to bid higher in the market than actual need. Hence, undertakers, guided in their actions by the index of *money*-productiveness, will devote economic resources to those uses which yield the

[1] *Cf.* the argument of Prof. Pigou which follows a slightly different line (*op. cit.*, 52, *seq.*).

highest *money*-return, irrespective of whether they yield the highest marginal *real* utility. Hotels and luxurious shop premises will be built in preference to working-class houses, touring cars produced in preference to food and elementary articles of clothing, because the production of the former yields a higher money-profit than the latter. Similarly, the undertaker will be solely concerned with money-costs; and when he is contemplating the worth of incurring certain costs (*e.g.*, overtime work, or the introduction of a dangerous industrial process), or when balancing one item of cost against another (*e.g.*, manual labour as against new machinery or improved organization), his decision will not necessarily be that which involves the least human sacrifice or disutility.

The existence of monopoly, therefore, prevents the Entrepreneur Function from being adequately fulfilled. Capitalist undertaking, which is based on monopoly as its distinctive feature, will accordingly always suffer from this deficiency, even if it has reached the full perfection of its type. Indeed, these effects of monopoly seem of sufficient importance to warrant the abandonment of the assumptions of *laissez-faire* altogether, at least so far as static adjustment is concerned. For what is the use of an assumption, when the exceptions to it constitute most of the pressing social problems of the day? *Laissez-faire* must find justification, if one so desires, on other grounds; for by its means, under conditions of capitalist undertaking, entrepreneur adjustment does not seem even approximately to be served.[1]

But it would be a grave mistake to imagine that the

[1] Mr. T. Veblen, in fact, starts with what seems to be equally good reason from a precisely opposite assumption. The gains of business accrue to the capitalized value of intangible assets; and "such income arises out of business relations rather than out of industry; it is derived from advantages of salesmanship, rather than from productive work; it represents no contribution to the output of goods and services, but only an effectual claim to a share in the 'annual dividend.'" (*Vested Interests*, 69–70.) *Cf. also Absentee Ownership*, 107, *seq.*

matter was exhausted, when merely the static requirements of entrepreneur theory had been considered. There is also the equally important, and perhaps more important, dynamic requirement of creative innovation; and it is here that monopoly may play a definitely constructive *rôle*. In the case of one form of advantage—that enjoyed by a whole community—this fact was well appreciated by Friedrich List. In his theory of productive powers the essential consideration is that a nation will be in a position of disadvantage in its economic relations with its neighbours if its productive forces are relatively undeveloped. This disadvantage will tend to increase and its productive powers to remain undeveloped. If, however, steps are taken to prevent foreigners from utilizing their advantage to the full, and some element of protection is given to native producers, these latter may have an opportunity to develop their productive forces by expanding their organization and improving their technique. Further, the acquisition of monopoly gains by native undertakers will tend to develop undertakers' capital and so to aid the growth of more advanced forms of capitalist undertaking. This contention List illustrated from the history of the Italian communes and of Germany, France, and Britain.[1] Such monopoly, while it sacrifices entrepreneur requirements in the present, may nevertheless in the future lead to sufficient improvements as amply to refund the initial cost.

It is a similar plea for the constructive *rôle* of class monopoly that has been advanced by most of those in recent years who have sought to glorify the undertaker. In particular, Mr. H. B. Hawley seems to have appreciated

[1] *National System of Political Economy*, 4–10, 69, 76 *seq.*, etc. *Cf. also* K. T. Shah, *Trade Tariffs and Transport in India*, 59 and 64: "where equality (between trading nations) does not exist. . . trade can scarcely be considered to be normal; and every effort on the part of the community, fancying itself at a disadvantage, to rectify this balance must be held to be justified."

the essence of the matter; and he has indicated both the monopoly character of profits and at the same time its constructive *rôle*. The reason for its constructiveness which he gives is that it enables the undertaker to be a bearer of risk.[1]

It may well be asked how monopoly, which merely affects the distribution of the product, can be constructive in increasing that product. One would, in fact, expect precisely the reverse. What is its mysterious incubating property which enables it to aid the regrouping of resources more than do the ordinary forces of free competition without it? The answer to these questions seems to be that monopoly creates a condition for the bearing of uncertainty. Free competition may stimulate the greatest possible expenditure of effort; it may produce the best possible static adjustment of resources; it may goad undertakers to take advantage of every possible change of which the result is known and calculable. But it will not necessarily enable people to bring about changes which are beyond their powers to execute, or to face uncertainties of which the burden is too heavy for them to bear.

Two things appear to be involved in every progressive regrouping of resources. First, there must be sufficient unanimity among producers to make the change possible, or else sufficient control of resources in the hands of those who have the will to make the change. The consensus of opinion among a large number of producers on any change is likely to be rare; it may be obtained in the case of changes that are small and certain, but unobtainable on those that are large and involve some risk. In practice, therefore, change seems unlikely to be rapid unless command over a large volume of resources—and hence the power to make decisions—is concentrated in the hands of a few active men. For instance, the head of an oil com-

[1] "The Risk Theory of Profit" in *Quarty. Journ. of Econs.*, VII, 459 *seq.*

bine, of a financial syndicate, or of the Supreme Economic Council of Russia could effect a considerable regrouping of resources, if he so desired, whereas a small blacksmith or a junior official of the Board of Trade could not ; and if one had to await the consensus of opinion of about two-thirds of the blacksmiths of the whole country, the change would probably never come.

Second, those who make the change must have the ability to face the uncertainty of change. This ability will mainly depend on the amount of the person's wealth and on his power of combining one uncertainty with others so as to minimise the total uncertainty. For instance, a man with a million pounds is more able to face an equal chance of the gain or loss of £100,000 than is the man who possesses only £100,000. The uncertainty concerns the *whole* of the man's wealth in the latter case, while in the former it only concerns a tenth part of it.[1] Again, the man who is in a position to combine with his equal chance of gain or loss of £100,000 nine other equal chances suffers much less than ten times the original uncertainty, since it is improbable that he will lose in all ten cases : he will probably gain in some and lose in others.[2] This is the method of insurance, which diminishes uncertainties by grouping them.

In both these respects the undertaker who has control of large capital is more favourably placed. He will have command over a larger area of resources and will be more able to face the uncertainties which change involves. Accordingly, monopoly, by ensuring larger gains to undertakers, and by fostering the accumulation of undertakers' capital, will tend to play a definitely constructive *rôle* : it will enable changes which involve uncertainties to be

[1] *Cf.* Pigou, *op. cit.*, 920 footnote.

[2] *Cf.* F. H. Knight, *loc. cit.*, 245–252 ; Willett, *Econ. Theory of Risk and Insurance*, 32 and 106 *seq.* : "The figure denoting the probable variation increases only as the square root of the number of cases." Also Pigou, *loc. cit.*, 921.

effected, when in the absence of monopoly those changes would have imposed too heavy a burden.

In the aid which monopoly gives in this way there will, therefore, be two aspects. First and most noticeable, is the significance of monopoly as providing an *incentive* to the bearing of uncertainties. By increasing the gains from undertaking it will induce undertakers to face uncertainties which formerly they would not have considered worth while; and this is the aspect which is usually emphasized.[1] Second, it will provide the *ability* to effect changes and to face uncertainties; and this aspect is probably quite as important as the first, and is in the very long run almost certainly more important. This ability it gives by aiding the accumulation of undertakers' capital; and it is in its greater ability in this respect that large undertaking (within limits) is superior to small undertaking,[2] and capitalist undertaking to classless individualism. In the latter case change will tend to be limited to the average daring of producers, since change can only come by fairly general agreement or by chance coincidence of action; whereas with large undertaking the change can be much more rapid if the undertaker—as his economic strength will tend to make him—is above the average in venturesome spirit.

It does not follow, however, that all change will necessarily be productive of increased welfare to society. It may be, as Prof. Cannan has said, that "in this country on the whole we suffer more from the sanguine than from the too cautious temperament, from too much than too little 'enterprise.'"[3] Evils of rashness, however, will tend to be minimized by the fact that the undertaker

[1] E. G. Henderson, *Supply and Demand*, 109–11. The excessive emphasis on this aspect of the matter has, perhaps, been partly responsible for the continual confusion of uncertainty-bearing as the *result* of monopoly with uncertainty-bearing as the *determining factor* in profits.

[2] D. H. Macgregor, *op. cit.*, 55 *seq.*

[3] *Economic Review*, iii, 460.

bears most of the loss if his estimate prove too optimistic; and this will cause those who are wisest in their judgments to survive and the more foolish to be eliminated. On the other hand, the change which appears profitable to the undertaker is not necessarily beneficial to society in the same degree.[1] The introduction of improved organization may result in temporary unemployment or dislocation, the onus of which does not fall on the undertaker who effects the change ; and from the social point of view it might have been better if the change had been conducted in a different way. Or the acquisition for reasons of productive economy of certain raw material resources in Africa or Persia or China may result in such political conflict that the gain of the change is quite outweighed by the loss which results indirectly from it, but does not fall upon its initiators. Again, a regrouping of resources may be effected with the chief aim of building an industrial combination with powers of deliberate monopoly. This change may bring profit to the undertakers concerned in it, but actual loss to the rest of the community.[2] It will not follow, however, that a slower rate of change would be beneficial or a faster rate of change harmful, unless there is reason to believe that the harmful changes increase more than do beneficial changes as the rate of change gets greater.

But another consideration seems relevant here to a discussion of the effect of a monopoly system on economic progress. We have said that the undertaker with control of large capital will usually be more fitted to effect economic changes which involve uncertainties than will smaller

[1] Prof. W. F. Ogburn has remarked that the undertaking class, while eager for change of one kind, may be a hindrance to changes of a different kind. " Those who derive exceptional benefit from rent, interest and profits resist changes that endanger or affect adversely these sources of income." (*Social Change*, 167.)

[2] These cases are by now familiar to most economists. Prof. Pigou has described them as cases where the ***individual*** net product of investment differs from the *social* net product. (*Loc. cit.*, 149–196.)

men; and this will be true, except where it is counterbalanced by the greater energy of the small man and the greater sluggishness of the large concern—where greater *ability* to change is offset by less *willingness*. But this superiority of the large undertaker will be aided by the fact that the undertaker who already commands large capital will generally find it easier to raise additional capital or credit. The larger undertaker will act as a magnet to the economic resources which he needs to extend his activities.[1] Those who wish to dispose of investible capital, whether private investors, financial houses or banks, but who do not themselves desire to undertake control of a productive enterprise, will look to the security either of personal knowledge of the undertaker to whom they entrust their money, or of the recommendation or guarantee of some influential person, or of valuable collateral. Where security of one of these kinds is not available the lender will demand an exceptionally high rate of interest to cover the uncertainty involved. The undertaker possessed of large capital will generally be more likely to have personal connections with financial institutions and be in a better position to secure the recommendation of influential persons or to offer collateral security. It is this fact which gives rise to the complaint which one so constantly hears from small producers against credit agencies, that credit cannot be obtained except on onerous terms. This was the continual complaint of the Middle West of America during last century, underlying the whole controversy concerning "free money" and President Jackson's vigorous onslaught on the "monopoly" of the National Bank. This seems to have been the continual complaint to which Burgomeister Raiffeisen lent sympathetic ear, and which prompted the formation

[1] *Cf.* Marx's statement that with the development of the credit system "the capital itself, which a man really owns, becomes purely a basis for the superstructure of credit" (*Capital*, Vol. III, 520). *Cf. also* Marshall, *Indy. and Trade*, 336–7.

of agricultural co-operative credit societies to give credit on the personal security of members instead of on the usual commercial criteria.

Now this partiality of lenders of capital for the large undertaker is not necessarily a judgment about the productivity of the economic use in question to which the capital is being put—a consideration which must be taken into account if the requirements of entrepreneur adjustment are to be met. It is a judgment based on three other considerations as well. First, it is a judgment concerning the relative *ability* of the large undertaker and the small to face uncertainty and so to effect economic change successfully. Second, it is a judgment influenced by the *greater uncertainty as to income* in the small as compared with the large business. Third, this uncertainty partly depends on the *information available* to the lenders, and this is influenced by the fact that small enterprises are often unable to provide satisfactory evidence of their real position and prospects, as they might have done if more fortunately placed. In a previous chapter[1] it was noticed that uncertainty as to individual income was enhanced when economic responsibility was considerably diffused among small units ; the variability of income in a small unit tending to be greater than in a larger group of such units. In addition, it was noticed that uncertainty was increased when the information available to the individual was for some special reason imperfect. The unwillingness often shown to lend to the small enterprise so readily as to the large is in part an example of these two facts : the uncertainty involved in an industry which is conducted by small enterprise is frequently greater for the lender of capital than elsewhere, whereas to society as a whole and in other conditions this would not be the case.

In many cases small producers survive and resist

[1] Chap. 3.

displacement by large undertakers by securing credit on the basis of personal knowledge from the merchants to whom they sell their products or from whom they buy their materials. This seems, for instance, to be a frequent custom among agricultural producers, small shopkeepers, and numerous kinds of small businessmen. It was the feature of the domestic production of the early period of capitalist undertaking, as in cloth making and tin mining.[1] But when this happens the small producer in question tends to be tied in some degree to one source of supply or of sale—the combined merchant and creditor—and so to find his ability to make use of substitute sources of supply or to take advantage of alternative buyers narrowed; and for this reason he tends to be placed in a position of disadvantage and dependence. During the domestic system reliance on personal connection with one or at most a few big merchant manufacturers and the custom of receiving credit thereby, though it enabled the small craftsman to survive, yet so narrowed his market of sale and of purchase of materials as to place him in a position of progressively increasing dependence. We find an extreme example in the case of cotton planting in the Southern States after the American War of 1860. This was carried on by small tenant planters, who were enabled to do so by the facilities which existed for securing credit through personal contact with local merchants and storekeepers. The result was that "while economically necessary at first as a means of securing the needed capital, this practice of agricultural credit soon resulted in a system of peonage of the debtor farmer to the merchant who became his creditor, under which the debtor was kept almost in a state of serfdom, working for his creditor until his debts were paid. All supplies must be purchased through the creditor, and the crops must be sold through him, on both of which transactions a lucrative com-

[1] *See* below, Chaps. 18 and 19.

mission was charged in addition to frequently usurious rates of interest."[1]

In the ordinary way this greater ease with which large undertakers can secure command of additional resources will have no further importance than to facilitate the displacement of the small unit of enterprise. The undertaker who has control of considerable capital or possesses a large personal connection and financial "goodwill" will, *ceteris paribus*, tend to have the advantage in a competitive struggle owing to his superior efficiency both as a bearer and a destroyer of uncertainties,[2] and to his greater power to gain the confidence of investors and credit agencies. This modified principle of substitution will tend to oust the weaker whether or not they are otherwise less efficient. But where in certain industries, in which small-scale enterprise prevails, there exist specific hindrances to the displacement of small undertakers, the result will be that the process of economic change is here definitely affected. In these industries economic change will tend to be much slower than it is elsewhere, owing to the relative difficulty which the small producers experience in securing credit and capital for the purpose of effecting innovations. Aggravating this will be the tendency to suppose, in the absence of more precise information, that an industry which has hitherto shown small profits has done so because of the low productivity of the industry in question, and not because of the small efficiency of the existing form of control; and this supposition will tend to hold back both investors and undertakers from participation in that line of business. Actually, however, in such cases the absence of economies of improved organization may be as much due to the persistence of small enterprise, as the persistence of small enterprise is to be explained by the absence of such economies. In so far as this is so,

[1] Bogart, *Econ. Hist. of U.S.*, 316.
[2] *Cf.* Macgregor, *Indust. Combination*, 47 *seq.*

economic change may proceed with great unevenness in the various parts of the economic system; and though development may be rapid in some directions, it may be so backward elsewhere as to cause considerable embarrassment.

An instance of this seems to be the agricultural industry in developed countries. In industry in general a new company can start independently in competition with existing firms and gradually absorb the latter's business. But in agriculture competition of new undertakers is rather more restricted by the limited supply of available land. New undertakers can as a rule only intervene by first displacing or else buying out existing agricultural producers; and for this reason the displacement of old by new undertakers will tend to be a somewhat slower process than in other branches of production. This reason for the slow rate of improvements in agricultural methods and organization, rendering diminishing returns such a predominant influence in the production of primary products, may be a not unimportant element in the agricultural problem and in the population problem.

Another instance of a different character is afforded by the unequal rate of development of different countries. In backward countries the native producers, possessed of small capital, in their attempts to improve their own methods of production may be retarded by the difficulty of attracting foreign investors except at onerous rates of interest. On the other hand, ignorance of its economic possibilities or political conditions existing in the country in question may retard the displacement of the existing backward mode of production by foreign undertakers with large capitals. If the country is to enjoy economic progress, therefore, it will in all probability have to pay exorbitant rates of interest for loans, or else, in order to attract foreign enterprise and capital combined, to grant generous concessions and to yield measures of political control to a foreign authority. These concessions or this control often themselves constitute elements of monopoly and advantage in the hands of foreign undertakers, and tend to place the country in a position of economic dependence, to which political dependence is often added. This is well exemplified in the history of Turkey and of China[1] during the last thirty years, and is relevant to the problem of Imperialism, to which we shall have occasion to refer below.[2]

But in spite of the fact that economic change will not always be effected in the best interests of society, and in spite of the exceptional unevenness of the rate of change with its incidental disharmonies which may be produced, there seems little question that the rise of capitalist undertaking has introduced economic innovations of very great net social advantage. Capitalist undertaking has been *par excellence* a progressive force, as the material progress

[1] *Cf.* Earle, *Turkey, The Great Powers and the Bagdad Railway*, 11, 19–23, 175–8, 219–229, 314–350 ; and L. Woolf, *Econ. Imperialism*, 75–91 ; T. F. Millard, *Democracy and the Eastern Question*, 177, 224–5, 228, 344–5, etc. ; S. G. Cheng, *Mod. China*, 208 *seq.*, 234, 309.

[2] This consideration gives a *prima facie* presumption in favour of providing loan facilities to agriculture or to backward countries at rather less than the ordinary commercial rates ; as, for example, by providing a guarantee by some state or international authority which will induce lenders to accept a lower rate of interest. This will be justified where the *effective demand* (in the shape of collateral security) for the loan does not represent accurately the ability possessed to put the loan to productive uses. For instance, after the war Europe's recovery was seriously impeded and millions were placed in idleness and in misery by the economic chaos in such countries as Austria. Austria, meanwhile, could not reconstruct her economic life without foreign capital and credit ; and this capital and credit she found it impossible for some time to secure owing to her inability to provide satisfactory collateral security of sufficient value. Finally, she only secured a loan in return for certain somewhat onerous conditions of control on behalf of her creditors ; and it has been argued that the terms of this control impose a real burden on the present generation of workers in Austria, out of proportion to the extra cost in uncertainty which Austria's creditors are thereby saved. The recovery of Europe might, perhaps, have been rendered more speedy if some international authority had been willing earlier to bear some of the uncertainty by guaranteeing a loan, and economic welfare would have been better served, perhaps, if the terms of the loan had been less onerous.

of the last century bears witness. On the civilization of Western Europe its influence was revolutionary and iconoclastic, and resulted in a wide refashioning of things anew. The results of its coming in the New World have been equally remarkable, and they show fair to be more remarkable still in the ancient civilizations of Asia. In this value as a progressive force lies its chief advantage over classless individualism ;[1] and so long as this outweighs the disturbing effects with which its consort, monopoly, embarrasses it, these latter will tend to be lightly regarded in the main as the necessary price of economic progress.[2] The plea that "it works" is usually for habit-ridden humanity sufficient persuasion.

We have no right, however, to assume, because during the last century those advantages have tended to weigh more in the balance, that they will continue to do so in the future. There are certain features, to which we shall have occasion to refer below, that seriously weaken the easy optimism of our grandfathers ; and much wreckage has flowed under the bridges since 1914. The supersession of

[1] *Cf.* Marx : "The petty mode of production . . . is compatible only with a society moving narrowly within more or less primitive bounds. To perpetuate it would be, as Pecqueur rightly says, 'to decree universal mediocrity.' At a certain stage of development it brings forth the material agencies for its own dissolution. From that moment new forces and new passions spring up in the bosom of society ; but the old social organization fetters them and keeps them down. It must be annihilated ; it is annihilated." (*Op. cit.*, I, 787.)

[2] As far as inequality is concerned this view is forcibly put by Prof. Cannan in these words : "The actual differences of earnings between different countries and different times is evidently far more due to difference of produce per head than to differences in the proportion of the whole taken by property. How ludicrous it would be to propose to bring the earnings of the average inhabitant of India up to those of the average American by a change in the proportion of income allotted to property ! . . . The economist regards the existing inequality of distribution as in itself extremely wasteful, but sees that it must in the main be retained for the present, because it provides both the motive force and the regulator for the existing system of production ; and even if it were practicable it would not be worth while to introduce the ideal distribution if it led to a considerable fall in produce per head. The existing inequality, regarded broadly, is in fact a necessary evil." (*Economic Outlook*, 248 and 251.)

the small undertaker by the large, for instance, introduces a new element of monopoly, which becomes an actual obstruction to economic progress. The growth of large firms, possessed of large "goodwill" and differential advantages, by making more difficult the entry of new competitors is a factor resisting the application of the principle of substitution—the substitution of the more efficient for the less—to undertakers themselves.[1] Business competition comes to be more and more resistance to the operation of this principle rather than its aid; thereby rendering profit the prize of obstructive rather than productive efficiency. Even where no single firm is large enough to dictate the volume of the total supply on the market, the existence of capitalized "goodwill," in so far as it is lasting, will largely express the advantage of *qualified competition*; and an increasing part of business capital represents, not additions to wealth, but profit-yielding restraints on industrial progress.

Moreover, it must not be forgotten that the greater part of the advantages under a class system accrue to one section of the community, and the greater part of the disadvantages, material and psychological, impress themselves on another section; and this fact will involve the danger of a continual instability. Applied economics cannot afford to neglect the tendency for this instability to increase and be a cause of cumulative embarrassment to the system; and the movements to which this instability gives birth may force, for good or ill, an ending to the system, as imperiously as the new social force of the fifteenth and sixteenth centuries, heedless of the precepts of authority and learning, forced the transition to capitalist undertaking itself.

[1] *Cf.* above, pp. 82 3, 170, and below, pp. 337–8, 364.

PART II

Historical

CHAPTER TWELVE

The Origins of Town Enterprise

In describing the development of any institution one is naturally confronted with the difficulty of where best the account may begin. That is a mere commonplace of experience ; and often, indeed, the search for causes and origins may so overmaster one with its lure and enchantment, as to tempt one finally to the shades of unrecorded history and the bewitching half-tones of myths of a golden age in the past. Each cause leads back to a preceding one and every explanation of origins seems incomplete without some reference to the remoter past. The beginning that is chosen, therefore, must be chiefly arbitrary ; and, since we must be arbitrary, there seems no better place of start for our present purpose than the rise of the mediæval towns about the tenth century. For, out of these early towns came new institutions which were alien to feudal life and were destined to split the roots of mediæval society asunder. Under their care were nurtured the spirit of trading enterprise and the tradition of money estimation ; and in direct descent their proudest offspring became the ancestors of the capitalist undertaker of a later day.

How these hives of a new civilization precisely had their origin seems very far from clear. Evidence is scanty ; conditions vary greatly from town to town and one country to another ; and authorities have advanced such diverse explanations as to make it difficult to lift any guiding thread from the general tangle of obscurity. The simple suggestion has often been made that mediæval towns were merely survivals of older Roman cities or *castra* ; and this seems certainly to account for one or two of the larger towns,[1] which, perhaps, maintained some continuity of institutions throughout the period of barbarian devastations. It may have been that feudal garrisons and episcopal establishments continued in these old centres, and that later separate town life grew up around them ; or the mediæval urban congregations may have been drawn to what were largely deserted sites of towns of five centuries before. But an explanation of this kind seems clearly inadequate. At best it can only apply to one or two of the more important Roman centres. Most authorities hold that the Dark Ages were sufficiently devastating in their effects on urban life as to make any considerable continuity from the old towns to the new improbable.[2] And it is continuity, not of sites or buildings, but of traditions and institutions with which we are here concerned. We have to explain the gathering of a new element of the population into a new kind of association between the ninth and the eleventh centuries ; and it provides only an incomplete explanation to show that in some cases the new settlement gathered round the site of a former Roman town, even when this site still retained a few inhabitants as pale ghosts of its bygone glory.

The other explanations that have been offered fall roughly into three main groups. First, it is suggested that the towns had a purely *rural origin*, growing from the thickening of population in certain rural hundreds. Villages grew until they became towns ; and there was thus continuity between the town tribunal and the earlier hundred court. On the continent the origin is traced to the *landgemeinde* or rural township. In this way the towns grew up within the structure of feudal society, and the

[1] *E.g.*, Cologne, Mayence, Paris. *Cf.* Cunningham, *Western Civilization*, 58.

[2] *Cf.* Ashley, *Surveys*, 179 and 195.

inhabitants retained their feudal relationship to an overlord. Qualification for membership was essentially agricultural—the ownership of land within the boundaries; and only later did trade become a main occupation of the inhabitants. The only sharp division between the earlier village and the later town was the fact that the latter was an *oppidum*—a place fortified for protection by its inhabitants with a wall.[1]

Second, we have an explanation, which we chiefly owe to Prof. Pirenne, that towns originated in *settlements of merchants' caravans*. Originally traders were nothing more than itinerant pedlars, travelling, often in caravans for mutual protection, between the various fairs and from one feudal household to another. Later they would form settlements, as do lumbermen and trappers to-day in North-West Canada, selecting the site of an old Roman town, because it was on a Roman road and strategically placed for trade, or choosing the protection of the walls of a *castrum*, the headquarters of some lord with his garrison, or the sanctuary and the custom of an abbey, and settling close thereto. For further protection the trading settlement would later build a wall by the common labour of its members, sometimes uniting the wall of the *burg* with the existing battlements of the *castrum*; and not infrequently these settlements became the objects of special privileges and protection from the King, as did the German and Italian merchants in England, thereby acquiring partial freedom from feudal law. Then the loose association of caravan days would grow to the more formal dignity of hansa and gild; and these, presuming to have trading privileges and to be immune from feudal law, came into sharp conflict with the local feudal lords.[2]

Third, is the explanation associated with the right of

[1] *Cf.* Ashley, "Beginnings of Town Life," in *Quarty. Journ. of Econs.*, X., 375–7, 392, 402, *seq.*
[2] Ashley, *loc. cit.*, 389–392; Pirenne, *Belgian Democracy*, 15 *seq.*

sauveté. Fortified places, which had garrisons requiring traders and craftsmen to minister to their needs, and which afforded protection, would be in mediæval times a natural magnet for all those loose elements of the population which did not fit into the framework of feudal society. Churches and monasteries, which possessed the right of sanctuary or *sauveté*, were naturally an asylum to which would come pilgrims and fugitives of all kinds in a lawless age; and, as these fugitives took up residence within the protected area, they probably performed some service for the monastery or abbey, and so constituted a separate lay population. Sometimes a lord would make an offer of special privileges to newcomers in order to institute a market for his own convenience; and sometimes the *sauveté* was made the subject of a secular grant, bestowing immunity from feudal jurisdiction. For instance, in France in 1058 the local seigneur made a grant of lands and dues to the abbey of St. Denis, and a priory was founded. In order to attract population, the monks of the priory created a *sauveté*. "Four wooden crosses were set up at the corners of a tract of land large enough to hold a *burg*; and King Philip I., with the assent of his lords, granted to the tract so marked out complete freedom from external jurisdiction, from toll and from military service."[1] The origin of the *burg* was usually the building of a wall by these new inhabitants, and a new walled community developed, which was not the community of the *castrum*, was partially immune from feudal obligations, and so tended to seek its livelihood in a new direction—that of trade.

In these explanations there are several points in common, and the true explanation probably contains a mixture of all three. All authorities, for instance, agree in ascribing importance to the town wall, to the market, and to the

[1] Ashley, *loc. cit.*, 374; *cf. also* Cunningham, *Western Civilization* (Med. and Mod. Times), 57–60.

ownership of some land within the town as a condition of burgess-ship. For the rest, it is unlikely that one factor alone contributed to the rise of a town, and it seems most reasonable to be frankly eclectic in supposing that under different circumstances different factors played the dominant *rôle*. In London, for instance, where German merchants were established in the reign of Ethelred,[1] it is probable that Prof. Pirenne's explanation would fit its development fairly well; but, in addition, the protection afforded by fortifications and religious establishments must have aided in attracting diverse elements of the population that were unattached to the soil. This, too, would largely apply to Paris and to cities on the Rhine, like Cologne, which quite early had a colony of alien merchants. Norwich, maybe, shared equally the advantages of a trading centre and of a fortified place and episcopal seat. Birmingham, on the other hand, shows signs of having grown from a village; and Cambridge, which is near the site of an old Roman camp, seems to have developed from a coalescence of villages.[2] Manchester grew out of a village and, though securing the status of a borough, remained consistently agricultural and non-commercial in character.[3] Bridgnorth, Hertford, Tamworth, Stafford and Warwick, however, were garrison towns, which probably had ancient markets to secure a food supply for the troops; whereas Glasgow appears to have originated in the shrine of St Ninian, not so much through attraction as a sanctuary, as because assemblies of pilgrims and "religious gatherings served as great opportunities for trade."[4]

But it must not be imagined that the new towns were without rivals as immature centres of trading enterprise. Religious institutions were frequently active centres of

[1] Cunningham, *Growth* (Early and Middle Ages), 194.
[2] Cunningham, *op. cit.*, 96; Maitland, *Township and Borough*, 41 *seq.*, 52.
[3] M. Bateson, *Mediæval England*, 395.
[4] Cunningham, *op. cit.*, 95.

industry and also of trade, just as they were in a barbarous age the repositories and centres of learning, art and culture. When the Frankish monarchs were imbued with reforming zeal, they were wont to encourage the foundation of monasteries as " Christian industrial colonies " by grants of land and of immunities from tolls and from feudal jurisdiction.[1] In the Benedictine monasteries, which appear to have copied the plan of a self-sufficing Roman villa, work was enjoined as a discipline on all the members, and the main function of the Abbot seems to have been the entrepreneur task of organizing and allocating the work of the community. Among the lay brothers, in fact, were specially included a large number of skilled artisans, who were " trained as Christians to render prompt obedience."[2] But in addition to fostering industry these religious colonies also engaged in trade. For although they may have aimed at being self-sufficing, there were always some needs which they required to satisfy from outside and always certain surplus commodities which it was to their advantage to sell ; and trade in turn developed fresh needs and fresh industrial opportunities. The organization of commercial activities was usually specialized to an official, called the *negotiator ecclesiae*, and " the religious houses gradually increased their commercial connections, and not only bought for themselves, but traded on a considerable scale."[3] In the eighth century agents for the French monasteries were active in Flanders purchasing wool for manufacture. In the wine trade of Burgundy it was the monasteries which were the important centres ; and the abbeys on the Loire and Seine owned a fleet of river vessels for carrying on their trade. In Florence the wool industry is said to have dated from the settlement of a monastic order, the Umiliati ; and in this case the work of manufacture was done

[1] Cunningham, *West. Civilization*, 35–6.
[2] *Ibid.*, 39. [3] *Ibid.*, 38.

by the lay brothers, superintended by priests.[1] In England the first working of minerals was apparently undertaken by the prior of Newstead Abbey, in Nottinghamshire;[2] and the Cistercians were very actively engaged in the English wool trade with Flemish and Italian merchants. The earliest establishment of German traders in England —in the reign of Ethelred—seems to have been an order of monks, "long engaged alternately in commerce and in warfare," who came with many ships to Billingsgate and secured royal patronage.[3] In Berkshire we find the principal market to have been that of Abingdon Abbey, from which the ships of the Abbot traded down the Thames to London, while in the thirteenth century there is indication that the Abbey was a centre of cloth manufacture as well.[4] In Lancashire the iron industry originated at Furness Abbey, and coal mining in the county was probably started in the thirteenth century by the monks of Bolton Priory.[5] In Yorkshire iron mining and smelting in the twelfth century was mainly conducted by religious houses, and we actually find the monks of Fountains Abbey sufficiently enriched by their commerce to lend money to Roger de Mowbray in the reign of Henry II.[6]

It is wrong to conclude, however, that these religious establishments were a type of ideal communist community. In the purity of first enthusiasm when the necessity for labour was enjoined on all, some of them may have been something of the kind; as, for instance, the early Benedictines, and when these fell from grace, the first Carthusians and Cistercians. But in the majority of cases they were merely religious counterparts of feudal institutions,

[1] E. Dixon, *The Florentine Wool Trade*, Ryl. Hist. Socy. Transacts., N.S. XII, 158.

[2] Bremner, *The Indys. of Scotland*, 2; *Vict. County Hist., Notts*, 2; 324.

[3] G. Walford, *Outline Hist. of Hanseatic League*, Ryl. Hist. Socy. Transacts, IX (1881), 83.

[4] *V.C.H., Berks.*, 2; 371 and 388.

[5] *V.C.H., Lancs.*, 2; 351, 356.

[6] *V.C.H., Yorks.*, 2; 342–3.

both alike maintaining their prosperity by the forced labour of a dependent population. Many feudal lords had workshops on their estates manned with serfs, and outhouses, called *gynecea,* where women spun and wove under the superintendence of the wife of the lord ;[1] and in like manner abbeys had their serfs and their *gynecea.* In the ninth century the Abbey of St. Riquier was the centre of a town of 2,500 houses, in which dwelt diverse artisans, grouped in streets according to crafts—merchants, smiths, bakers, butchers, shoemakers, and so forth ; and these crafts were under a collective obligation to furnish wares to the Abbey. At the end of the eighth century we find the Abbey of St. Germain des Prés with a *gyneceum* where linen and serge were made, and the wives of the serfs of the abbey were required to furnish stipulated quantities of cloth.[2] When the Abbeys on the Loire and the Seine began to organize a widespread trade, they were aided in doing so by the fact that " the peasants on their estates were required either to provide oxen and carriages for land transport or to pay a commutation which enabled the monks to organize an independent service."[3] By the eleventh century, in fact, on the continent there seems to have existed a quite definite privileged class, semi-feudal and semi-commercial, among religious establishments, a class which enriched itself by trade, usury and the profits of dependent labour, purchased ecclesiastical preferments and was possessed of *lucri rabies* as surely as any Jew. Monasteries became " like baronial palaces," and " wealthy abbots kept large bands of retainers like lay lords."[4]

[1] Usher, *Intro. to Ind. Hist. of Engd.*, 55-56. " These early mediæval establishments differed in no essential respect from the ' factories ' based on slave labour during the classical period. . . . With rare exceptions these groups were mere aggregations of women ; no real organization of work was achieved by bringing them together. They worked side by side perhaps in a single room." (*Ibid.*, 57). *Cf. also* Bucher, *Industrial Evolution*, 102 *seq.*

[2] Usher, *op. cit.*, 56. [3] Cunningham, *Western Civilization*, 40.

[4] A. Abram, *Social England in the 15th Century*, 109.

According to Sombart, this *lucri rabies* had become general by the thirteenth century ; and by the time of the Reformation we have the complaint of Erasmus: "*Pecuniæ obediunt omnia.*"[1]

Sometimes, indeed, it has been suggested that the artisans of these feudal establishments formed the separate element which later secured its freedom and became the autonomous town community. Certainly some of these artisans may have merged with other elements that came from outside and settled round the *castrum*, and some serfs probably gained their freedom and became land-owning burgesses. But as a general explanation this seems inadequate ; and in the English towns it would not account for very much. More usual was it for these artisans to remain lay retainers of the abbot or lord, and to constitute a class of *ministeriales* separate from the burgesses.[2] In so far as they became townsmen, it was apparently a late rather than an early development ; and when they merged it was as a subordinate, rather than a dominant element, and with an already existing town community.

But the importance of these feudal enterprises helps to afford an explanation that is important of a different kind. First, it makes clear why so many of the early

[1] W. Sombart, *Quintessence of Capitalism*, 29–30 ; *cf. also* Abram, *op. cit.*, 101 *seq.* It must not be assumed, however, that these feudal undertakings were similar to the later enterprises of capitalist undertaking. The former remained essentially feudal and conservative in character. Feudal enterprise was of a very cautious kind. The aim was usually the amassing of wealth for display and present enjoyment, and the purely possessive aspect of it was, therefore, unduly stressed. The psychology of capitalist undertaking in its heyday, however, was different. It regarded enterprise and commercial achievement as things to be valued for their own sake, and wealth was to be acquired, not for present enjoyment, but as a means to fresh enterprise and to accumulate at compound interest for posterity. Miserliness supplanted *magnificentia*. This seems the difference, for instance, between the attitude of St. Thomas Aquinas and that of the Puritans, which Sombart discusses. (*Quintessence*, 242–250, 252, 259). It is strange that Sombart should regard the former rather than the latter as favourable to capitalist enterprise.

[2] *Cf.* Ashley, *loc. cit.*, 378 ; *also* Pirenne, *op. cit.*, 40–1.

towns grew up in dependence on some religious house or some lord's *castrum*. The religious house or *castrum* would already be centres of trade and activity to which traders and artisans would naturally be drawn; and it may well be that some of the industrial skill and commercial acumen of the later age was inherited from the Christian communities. Second, it explains why the rising towns, especially on the continent of Europe, had to purchase their autonomy at the price of so fierce a struggle. Originally the townsmen owed certain obligations to their superior; and though they might trade on their own, they were in the main dependent on the institution which overshadowed them. If they had a market, it was usually controlled by lord or abbot or bishop, and the control was probably exercised so that trade might bring benefit chiefly to the latter persons. It was but natural, that as soon as the town grew predominantly trading in character it should yearn to free itself from the bonds of its dependent position. Possibly this stage was reached when the itinerant merchants had made a strong settlement and founded a hanse and gild;[1] for, these would naturally take the lead among the townsmen in demanding control of the market. At any rate, it is clear that at this stage the activities of the towns severely threatened any commercial monopoly which a lord or a religious house might possess; and it was not unnatural that the Church, as a commercial institution as well as a cradle of learning, should have resisted most strenuously the claims of these vulgar upstarts, who rudely broke the mellow cloistered culture with their rash presumption.

In England, however, the feudal lords had little interest beyond their own estates, and their interest in the market was almost entirely that of a consumer. They were often uncultured and weak and not very wealthy; and they

[1] Pirenne, *op. cit.*, 24.

were willing and even eager to sell privileges to the towns for the wherewithal to purchase tempting luxuries from Lombard merchants, or to pay hire to their retainers, or to equip themselves fittingly for the Crusades. All over Europe, in fact, it was the Crusades, like many another exhausting war in history, which sapped the strength of the ruling class and forced them of their necessity to give treasured privileges to the rising class which was later to supplant them.

CHAPTER THIRTEEN

THE STRUGGLE FOR MARKET CONTROL

IT is a curious fact, which should bring joy to the Hegelian, that only in so far as they came into acute antagonism with feudal institutions did the early towns seem to nurture those characteristics of commercial enterprise which in retrospect we regard as landmarks of social progress. It was out of conflict that there were born the institutions which vanquished feudalism and the spirit which breathed life into the modern world. Where this was not the case, the commerce which developed was marked by a quite peculiar and somewhat listless character. Where, as in Italy and Spain, the urban traders merged with or were subordinated to feudal authority, trade was cramped by feudal conservatism and immobility, and shaped to the pattern of tradition and status to serve the desires of a landed nobility for leisure and for *magnificentia*. Commerce of this kind lacked the fire of arrogant youthful adventure. It gave small room for the immature capitalist undertaker to forge a path for himself by the instrument of free money contract. It was commerce without the spirit of enterprise to give it life, and with feudal tradition ruling it instead.

The kernel of this antagonism, which did so much to sever the new towns from the past and to implant in them the germs of the future, seems to have been the vital matter of market control. And it was probably not until the townsmen had become conscious of some common interest in market dealings that there was a sufficient bond between them to constitute them a *communitas*. But as soon as this common need was felt, it was natural that those of the townsmen who were most interested as traders in the course of market prices should form some common body for protection of their interests. Of this need, one can suppose with good reason, the Gild Merchant was begotten;[1] and Mr. R. H. Gretton has, in fact, preferred to call this institution the Market Gild to emphasize its connection with the town market.[2] This Gild was a functional body; and though it was not the same as the whole burgher body, it represented the chief interest which gave to the town a corporate existence. It was the economic organ of the townsmen, as in later centuries the Trade Union was the economic organ of a dependent working class; and in the former case as in the latter the economic needs of its origin gave rise in the course of circumstance to wider and more ambitious schemes of political control.

In so far as the town was an economic group of traders and craftsmen, it naturally wished to secure a rate of exchange favourable to itself both with stranger merchants who visited its market and with the surrounding countryside. A lord of the manor, on the other hand, was interested mainly as a consumer. The purpose of a market for him was to bring within his reach numerous merchants with exotic wares which he could buy in exchange for the surplus products of his estate. Maybe, he hoped also to attract as inhabitants of the town craftsmen from whom he could secure wares cheaply, and whom he probably classed in much the same category as the serfs of his estate, performing for him a service by customary right. It was very natural, therefore, that in towns subject to some religious or secular lord the very success of the Gild

[1] *Cf.* Gross, *Gild Merchant*: "Not until there was something of importance to protect, not until trade and industry began to predominate over agriculture within the borough, would a protective union like the G.M. come into existence." (p. 4.) The G.M. "constituted a bond of union between the heterogeneous sokes of a borough." (p. 98.)

[2] R. H. Gretton, *Eng. Middle Class*, 30 *seq.*

Merchant in organizing the interests of townsmen as buyers and sellers should tend to provoke resistance. The lord would in some cases deny to the townsmen the right to possess a Gild at all, while in other cases he would try to control it and to reserve jurisdiction over markets and fairs to himself as before. For instance, in Reading the Abbot possessed immunities from customs and tolls from the Crown, owned the streams and the mill and held jurisdiction over the town. Though the Gild claimed rights in a charter from Edward the Confessor, its Steward or Master was appointed by the Abbot, to whose authority the Steward or Master had to take an oath of allegiance.[1] At Lynn, which in 1268 had obtained a royal charter with the right to appoint a mayor, the Bishop had considerable control over the town and was able to render its power of regulating trade very small.[2] At St. Albans there were complaints that the monks had refused to allow the townsmen to use their own mills and had treated them "as tenants thirled to the lord's mill";[3] and later the town was forced to renounce the charter which it had previously obtained. Winchester was in every direction hampered by episcopal authority, so that its trade, which had previously flourished, decayed, and in 1450 nearly a thousand houses in the town were said to be standing empty. The Bishop controlled the gates and held most of the dues and tolls in his own hands, including the tolls on river traffic, a burden which was especially grievous to the burgesses. At the time of fair the episcopal officers took complete control of the town and secured most of the profits of the fair for the benefit of the religious establishments.[4] At Peterborough the Dean and Chapter continued to have the right of appointing the city magis-

[1] C. Coates, *Hist. of Reading*, 49, 246.
[2] Mrs. J. R. Green, *Town Life in the 15th Century*, I, 285–6.
[3] Cunningham, *Progr. of Capitalism*, 65.
[4] Mrs. Green, *op. cit.*, 324–6.

trates right down to the nineteenth century ; [1] while at Nottingham in the reign of Henry III. there were many complaints that the bailiffs of various lords fixed arbitrary prices at markets and exacted undue tolls.[2] At Bury St. Edmunds the Abbot was particularly jealous of any market privileges which the burgesses claimed. In the thirteenth century he had the right of choosing the aldermen of the Gild and held the gates and the jurisdiction of the town ; while in 1304 he denied the right of the townsmen to have a Gild Merchant at all.[3] At Exeter during the same period control of the town was shared between the Bishop and the Earl of Devonshire, and up to 1309 the mayor was " a mere dependent of the Earl, wearing his ' livery ' as one of his retainers." [4]

Out of these conditions it was the destiny of the early towns to win their way through travail and struggle. Those lords who had previously held the town most closely under their control and had obtained for it a market to secure handicraft products and foreign luxuries for their own households showed suspicion and hostility to any independent move of the town in the most marked degree ; and if they regarded the market not only from the standpoint of consumers and toll-gatherers, but also from that of traders possessing commercial privileges in other towns, as did the Abbot of Reading, then all the greater tended to be their dislike of the upstart and presumptuous townsmen. In such cases the Gildsmen had usually to fight for the most elementary rights of assembly ; for, feudal authority scented in their custom of meeting in " morning-speech " the same kind of conspiracy and danger as a later age saw in the journeymen associations in Tudor Gilds and Companies and still later in the Trade Unions of the nineteenth century. In the case of the Commune of London, in 1191—an importation, it has been suggested,

[1] Lipson, *Economic History* (Middle Ages), 186.
[2] *V.C.H.*, *Notts.*, 2 ; 273–4. [3] Green, *op. cit.*, 297. [4] *Ibid.*, 339.

by foreign merchants from Rouen[1]—we have the feudal attitude pithily expressed by Richard of Devizes: "Communia est tumor plebis, timor regni, tepor sacerdotis."[2]

It is not surprising, therefore, that it should have been towns on the royal *demesne* that won their autonomy with greatest ease, or that in such towns where control of the market was most easily obtained the Gild Merchant, as the organization of trading burgesses to secure and exercise this control, should have been least in evidence.[3] These towns on royal *demesne* were able to secure a privileged status by contracting to pay a lump sum in taxation, known as *Firma Burgi*, which was assessed on the town as a corporate body. The right of corporate responsibility which was thereby recognized gave to the town control over the market for its own ends. In other towns where the opposition of some feudal authority had to be circumvented the burgesses generally appealed to the Crown, and with lavish bribes endeavoured to secure a charter which should recognize the right of the Gild to have monopoly of trade within the town. Such charters became common in the reigns of Henry I. and Henry II., and definitely recognized the town as a corporate body, whose members were free from the feudal obligations which were common to persons of servile status. But, as the examples just given clearly show, the towns were to find speedily that the mere grant of a Gild did not solve the problem for them. It merely prepared the ground for a new struggle to make their control effective. It was of little use to possess a Gild Merchant, if the power to distrain and punish those who offended against market regulations was not possessed as well. The power of the townsmen was purely nominal if they could not freely appoint the officers of the Gild and of the town, and if the consent of an overlord was necessary

[1] J. H. Round, *The Commune of London*, 225 *seq.*
[2] Gross, *op. cit.*, 20.
[3] *Cf. Ibid.*, 91–2; Gretton, *op. cit.*, 30.

to the admission of new members to the Gild or to the town franchise. Burgess prosperity was gravely hampered if the profits of fairs went to the lord, as in the case of Winchester, and if trade was subject to heavy tolls and dues levied by feudal authority. The fiercest struggle was, therefore, to be waged over the matter of separate jurisdiction—over the issue of the town court *versus* feudal court and of town law in place of feudal law. To make their economic control effective the burgesses naturally wished to have the political right to try all offences committed within the town boundaries in town courts instead of in courts controlled by the lord ; and for purposes of commercial disputes great importance was attached to the possession of tribunals which observed *lex mercatoria*, or the law merchant, instead of feudal law.[1] This was the objective of the main offensive. But even when this right of jurisdiction had been obtained, a third phase of the conflict often developed over such questions as town boundaries, the control of a river or an important route, or the lord's right to set up a rival market in a neighbouring suburb.

Mr. R. H. Gretton has suggested that in its struggle for power and for economic advantage the trading class in Britain was essentially conservative and constitutional. Hesitant in advancing new and revolutionary claims, it tended rather to hark back to old customs and to appeal to privileges previously granted by authority.[2] This feature of English burgess temperament is certainly notable ; but it probably finds quite adequate explanation in the conditions under which the struggle in England took

[1] Cunningham, *West. Civilization*, 91 ; *cf. also* Mrs. Green, *op. cit.*, 197–8, 301 *seq.* ; Cunningham, *Growth* (Middle Ages), 214–5. Mrs. Green has written :—" Charters of freedom were of no use, if in every question of trade, of police, of finance, of public order, ecclesiastical privilege stepped in and brought all government save its own to an end. All discussions from first to last invariably came back to the one central problem—the right of arrest." (*Op. cit.*, 364).

[2] R. H. Gretton, *loc. cit.*

place. In England the towns were less developed than on the continent and considerably poorer. Many of the towns were in origin agricultural, and trade developed, not so much under the stimulus of settlements of foreign traders, as from the desire to dispose of surplus products.[1] Moreover, in England the power of the Crown over the feudal nobility was much stronger than on the continent,[2] and the King was always eager to maintain his authority by enforcing any privileges or liberties he had granted. The King's law and the King's itinerant justices carried authority throughout the land. At times, in fact, the King was likely to show more favour to the towns against their lords than he was anxious to aid a lord in curbing the turbulence and anarchy of his subjects. With the coming of the Crusades and the impoverishment of the Crown, the King was usually willing to grant anything to the towns which they might desire, provided that he secured in return a good price in the coined money which he so much needed. It was very natural, therefore, that the burgesses should look to the Crown as their friend and protector and should seek to establish their position by the purchase of royal charters. This method, once adopted, governed all their subsequent tactics. If their charter-rights were ignored by an overlord, it was to the King's justices that they appealed ; and in order to secure a legal decision in their favour they had to be better masters of historical and legal research and abler servants of tradition and precedent than their opponents. To act unconstitutionally was to flout the very authority upon which they relied for intercession on their behalf. Under other circumstances the constitutionalism of the burgesses might have been mere reactionary apathy ; as things were, it was a strategy very well adapted to the conditions of the place and time. And with this way of doing things there was no reason for the King and the keeper of his

[1] Ashley, *op. cit.*, 74. [2] *Cf.* Mrs Green, *op. cit.*, 30, 255–6.

exchequer to be anything but content; for, the marrow of the method was " a generous system of bribes—bribes given largely and openly, registered in the public accounts."[1]

Even so, the struggle for power in England took in many cases a turbulent and revolutionary form; and this was most frequently the case with towns subject to the over-lordship of some church authority. Often the restrictions of the lord were openly challenged, with rebellion as the sequel. In Exeter in 1309 there was a demonstration of the townsmen against the attempt of the Earl and the Bishop to buy up all the fish in the market. Impelled by the popular clamour the Mayor ordered one-third of the supply to be kept for the burgesses, and on being summoned to answer for his conduct to the Earl he went at the head of a concourse of the townsmen and renounced the Earl's livery.[2] In Reading there were protracted conflicts with the Abbot, broken only by temporary compromises. In the disturbances of 1243 the burghers " lay in wait day and night for the Abbot's bailiffs "; and in the next century the Mayor openly defied the authority of the Abbot's constable.[3] At Norwich there was open war between the town and the cathedral, continual complaint being made that the monks gave aid and sanctuary to offenders against the law of the town; and in the riots of 1272 the cathedral church was actually burnt down.[4] In some cases towns appear to have been encouraged to revolt by emissaries sent down by the citizens of London. At Bury St Edmunds in 1327 the burgesses broke into the Abbey and forced the Abbot to allow them a Gild Merchant. They forcibly seized treasure and documents from the Abbey, and they removed the alderman and the gatekeepers of the town who were the

[1] Mrs Green, *op. cit.*, 212 and *seq.* [2] Mrs Green, *op. cit.*, 339.

[3] Coates, *Hist. of Reading*, 49 *seq.*; Mrs Green, *op. cit.*, 300–1.

[4] Cunningham, *Growth* (Middle Ages), 210; Lipson, *Economic History* (Middle Ages), 188.

Abbot's nominees.[1] The citizens of St Albans, enraged by the Abbot's refusal to allow them the use of their own fulling mills, laid siege in the same year to the monastery for ten days, and finally forced the Abbot to give them a charter, which included the grant of a separate court. Three years later, however, after an affray in which the Abbot's marshal was killed, the burgesses were forced to surrender their charter.[2] The same eventful year, 1327, was to see at Abingdon a crowd, swollen by allies from Oxford, besieging the Abbey, burning down the gates and extorting the concession of the town's right to have its own bailiffs.[3]

Even when town autonomy had been granted, these conflicts often continued. At Canterbury in the fourteenth century there were recurring quarrels between the town and the Archbishop and the Convent of Christ Church. Complaint was made that the Convent evaded the market regulations and that the Archbishop used his jurisdiction over the neighbouring villages of Wingham and Westgate to the detriment of the town. Here he held separate markets, and it was said that the men of Wingham intercepted for their own market goods which would otherwise have gone to Canterbury. There were also disputes about boundaries, and it was customary for the Mayor and council to " walk the bounds " of the town, giving coins to children at appropriate places, and concluding the procession in a field near Fordwich by refreshing themselves with a " potation." The conflict on one occasion became so acute as to cause an armed battle, in which the monks, who had hidden weapons beneath their clerical garments, were beaten ; and the citizens stopped up the river dyke made by the Convent and declared a state of siege and blockade.[4]

[1] N. M. Trenholme, in *Am. Hist. Review*, VI, 659.
[2] *Ibid.*, 652. [3] *Ibid.*, 663.
[4] Mrs Green, *op. cit.*, 135–6, 370–7 ; Lipson, *op. cit.*, 187.

A rather similar struggle took place at Bristol. The complaint here was against the lords of Berkeley, who claimed the river as part of their lordship and held their own market at Redcliffe Street. Control of the river by the lord was felt by the town to be injurious to their commerce, and the market at Redcliffe was a rival to their own. Accordingly, in 1305 the townsmen broke into the house of Maurice of Berkeley; and in retaliation the young lord made a punitive raid on Bristol, appearing with "great multitude of horses and foot." According to the witness of the townsfolk, which may be biased, he attacked the burgesses, trampled women under foot, and seized the prison and the ships of the men of Bristol. Not until 1332 was the dispute finally settled, when the King granted the disputed rights to the Mayor in return for a payment of £40.[1]

One of the most interesting sidelights on this struggle of the towns and on the admixture of militancy and constitutionalism which the struggle displayed is given by a chapter in the history of Exeter. After the Mayor's initial act of defiance in 1309 the struggle against the Earl and the Bishop appears to have progressed in less spectacular ways, and for a whole century the advance of the burgesses seems to have been slow. The Earl owned an important suburb of the city and controlled the navigation of the Exe, and the jurisdiction of the Mayor was severely limited. In the 15th century, however, the townsmen elected as Mayor a certain John Shillingsford, who was a country gentlemen and therefore presumably more versed in the manners and the idiosyncracies of existing society than the average burgess was likely to be. At first Shillingsford appears to have been unwilling to assume the burden of office. But in 1445 a quarrel with the Cathedral occurred, because the city sergeant had arrested a servant of the chapter in the Cathedral precincts; and this or

[1] Mrs Green, *op. cit.*, 313–4.

some similar event seems to have aroused Shillingsford's civic patriotism. After this his zeal for the town's welfare was untiring, and when re-elected in 1446, he apparently took the direction of the town's offensive against its foes into his own hands and conducted it with consummate strategy. The manner of this strategy is interesting. Throughout the period there was all but open war between the Cathedral and the burgesses inside the city. But the method which Shillingsford adopted was that of spending considerable periods of time in London engaged in extensive historical and legal research. In London he was tireless in interviews—interviews with prominent lawyers, with the Chief Justice, with the Exchequer, and at Lambeth Palace; he was a model of punctiliousness in the many formalities and courtesies to be observed with prominent and influential persons. All the while he directed the operations in the city of Exeter by letter, giving the minutest directions as to the tactics to be adopted towards servants of the Cathedral, as to the feasting of certain justices, on the sending of appropriate presents of fish to the Chancellor—"conger eel, 400 buckhorn, or dried whiting, or a 'fish called crabs.'" And on one occasion his letters contained much complaining because the buckhorn did not arrive in time for a crucial interview with the Chancellor.[1]

On the continent of Europe the differences in the form which the struggle of the traders took were not on the whole very large, for the movement was a fairly universal one, "the result of social conditions independent of race, language or frontiers."[2] The differences were chiefly due to the fact that on the continent the feudal nobility was as a rule stronger than in England, and central authority was generally much weaker. The power of the Church, moreover, was very much greater: as a rule it was a power which could hold its own against the State. Where some

[1] Mrs Green, *op. cit.*, 340–348. [2] Pirenne, *Belg. Dem.*, 34.

important feudal interest was threatened by the rise of the town, the burgesses were held in dependence by a force which could not be so easily surmounted by appeals to higher authority, as it could be in England; and in these cases the struggle of the rising *bourgeoisie* tended to assume a violent and revolutionary form. But this was not always the case; and, as in England, it was against ecclesiastical authority that the struggle was most violent; while many of the lay princes were willing to sell privileges to the burghers.[1]

For instance, in Flanders the rise of the towns was actually encouraged by the Counts of Flanders, who aided the burgesses in overcoming the resistance of local lords. In this case the situation was very similar to that in England; and as early as the 11th century Count Robert Frisian commenced to grant privileges of market dues and separate jurisdiction. The Counts had a travelling household, which drew its supplies from various estates as it passed from one to the other; and accordingly they had no specific interest in the control of this or that local market. At the same time they were wise enough to see in the towns rich sources of revenue.[2] But other towns were not so fortunate, and had to struggle against a lord and his *castrum* or a bishop and his cathedral. By the eleventh century many of these towns had been crystallized into new communities by the settlement in them of merchants from outside, who set up a gild and often built a gildhall, which became the focus of the awakened urban consciousness.[3] As in England, however, the mere possession of a gild was of little avail unless the gildsmen had the power to make its control of trade effective,

[1] *Cf.* Pirenne, *Histoire de Belgique*, I, 190: "en général les princes ecclésiastiques lui furent hostiles, les princes laïques favorables."

[2] Pirenne, *Hist. de Belg.*, I, 175; *Belg. Dem.*, 33, 648.

[3] "Elle (gild) fut un élément d'ordre, de discipline, et de progrès." (Pirenne, *Hist.*, 188).

and a struggle consequently developed to secure jurisdiction within the town boundaries.

The form this struggle took was determined by circumstances. In cases where the town met with little opposition it secured the right to replace the jurisdiction of the castle tribunal by that of *échevins*, chosen from among the burghers. These *échevins* then became the representatives of the town, securing gradually extended powers. They dispensed justice and administered the town "according to the new law of the burgher body; instead of meeting in the castle, they met in the suburb of the traders, either in the market hall or in the parish churchyard."[1] In the towns of Liège, Cambrai and Utrecht, however, which were episcopal towns, the bishops kept the *échevins* strictly under their control. For instance, in the eleventh century the towns in the Liège district purchased the right to have a court of justice of their own. But the court remained a Bishop's court, being appointed by the Bishop, not from among the burghers, but from the *ministeriales*. Accordingly in the twelfth century these towns set up a council of their own called *jures* or *jurati* to resist outside interference; and these councils, which the Bishops, sensitive to approaching danger, tried to suppress, became quite definitely "an instrument of revolution."[2] As early as 1077 the town of Cambrai had taken advantage of the absence of Bishop Gerard II. to rise and gain possession of the gates, and to declare the first commune. For six years the city remained a separate republic; and this remarkable example was followed by most of the episcopal towns of Picardy, Noyon, Beauvais, Laon, Amiens and Soissons.[3] After six years the Commune of Cambrai was suppressed by the order of the Emperor; but in the thirteenth century there were further revolts in all the episcopal

[1] Pirenne, *Belg. Dem.*, 48. [2] *Ibid.*, 50–51, 62.

[3] Pirenne, *Hist.*, 1, 192 *seq.*; *cf. also* Luchaise, *Les Communes Françaises*, 82, 136 *seq.*, 279.

towns to secure recognition of the authority of the *urati*.[1]

This same struggle is also to be seen at this period in North Italy, where it continued for nearly two centuries against a strongly entrenched nobility and a rich and influential Church. The contest against the Bishops, however, seems to have brought success to the townsmen earlier than was the case elsewhere; for, in the episcopal cities we find by the end of the thirteenth century that the burghers had "reduced the prelates to insignificance, and stand before us as so many free republics."[2] But of this struggle there are very few records. In other towns the final issue of the struggle was in doubt till much later. In Milan in the eleventh century the nobles were expelled and a charter was obtained from the Emperor in 1055; and by 1150 most of the nobles in Lombardy had to give important concessions to the burghers, and in some cases had been expelled altogether. But this did not end the matter; for, the nobles continued to intrigue to regain their privileges, and they seem to have been able to take advantage of inter-civic quarrels to replace themselves in power. As a result, in the thirteenth century, there were further risings in the towns. At Piacenza, for instance, the burghers in 1222 obtained half of the public offices, and later excluded the nobles from power altogether.[3] Generally, however, the result seems to have been a compromise between the nobles—or at any rate the *valvassori* or lesser nobles—and the richer merchants, as in Florence, where the offices were shared between the nobles and the seven major gilds.[4] Monopoly advantages were enjoyed jointly by feudal enterprise and burgher

[1] Pirenne, *Belg. Dem.*, 62; *cf. also* Cunningham, *West. Civilization*, 91.
[2] W. F. Butler, *The Lombard Communes*, 55.
[3] *Ibid.*, 63–83.
[4] J. L. Sismondi, *Hist. of Italian Republics* (ed. Boulting), 238; *cf. also* C. Hutchinson, "Oriental Trade and the Lombard Communes," *Quarty. Journ. of Econs.*, XVI, 425–4.

enterprise. Consequently the nobles partly forsook their mediæval habits and participated in trade, as they did most notably in Venice; whereas the merchants tended to become feudal in outlook and to seek after the feudal ideal of a gentlemanly way of life. They rigorously discouraged the enterprise of other sections of the community and tended to be conservative in their adherence to old and tried methods of acquisition. Moreover, they wasted their energy and their substance in the feudal quarrels which enveloped Italy in the Middle Ages. The result was that in the fifteenth or sixteenth centuries commercial enterprise began to wane. The glory of the Italian Cities then lay in the past; and when old trade routes to the East began to be closed and rival Atlantic routes began to develop, the Lombard semi-feudal undertakers lacked all power of adaptation and invention. "The spirit of enterprise decayed. . . . The joy of acquisitiveness and the devotion to business made way for a comfortable mode of life, partly that of the aristocrat, partly that of the man of independent means. . . . (This) inclination towards a feudal state of society . . . was spoken of as the 'Spanish way of life'; its chief characteristic was to despise work and to seek after titles of nobility."[1]

In these ways fairly universally the simple economic issue of market advantage developed a political conflict in which the forces of the new era were ranged against the forces of feudal society. Out of the struggle was born a psychological cleavage; and where the issue was favourable to the new urban trading element a new ideology, marked by different habits and different moral standards, tended to be dominant and to exert its influence on social and economic development. On the outcome of the struggle depended the question on whose shoulders the function of commercial undertaking was to rest. Was it to remain with the lord's bailiff and the bishop's officers,

[1] Sombart, *Quintessence*, 133–4.

with the Abbot and the *negotiator ecclesiae*? Or was it to pass to new, rough and untried men, introducing new elements of which the old society knew not? On the whole there seems little doubt that the change which did take place, most notably in England, was favourable to the commercial expansion of the ensuing centuries. The triumph of the towns seems to have liberated what Sombart has called "the capitalist spirit." It undermined the old confining structure of status and service and tradition-worship; and it introduced instead a new basis of contract and exchange, and new ideas of economic mobility. Most pertinent of all to our present purpose, it brought to the helm new ambitious men, unencumbered by feudal ideas of gentility and *magnificentia*, whose imaginations were turned to explore opportunities of advancement in directions of which feudalism was ignorant. It was natural that these men, from their constant association with coined money, should perfect the art of reckoning and calculation, and should make of quantitative measurement the very texture of the new economic life.

CHAPTER FOURTEEN

THE TOWN MONOPOLY

To what extent the early towns were equalitarian and classless communities it is not easy to determine precisely. On the continent of Europe there seems always to have existed a distinct upper grade of burghers, who took the lead in the fight against feudal authority, and took over the reins of government when that fight was won. This may be explained, perhaps, by the fact that many continental towns acquired their individuality from settlements of merchants, bringing with them, maybe, a hanse or gild; and these merchants would have certain characteristics in common, which they did not share with the other inhabitants of the place, who probably engaged little in trade, except to sell products to passing merchants or to the *castrum*, and had the psychology of a dependent section of feudal society.[1] But prior to the 12th century the division within the towns does not seem on the whole to have been very considerable. Certainly it was much smaller than the division which existed clearly drawn by the fourteenth century. Though an upper grade of burghers may have dominated most of the political decision and been held in respect by the other inhabitants, their interests at the outset seem to have been those of the burghers as a whole. Probably they were an upper grade, as to-day skilled labour is a grade of the working class, rather than a separate class. But not till later did they

[1] Prof. Pirenne has remarked: ". . . in the urban aggregations of the eleventh century the travelling merchants evidently formed an upper class." (*Belg. Dem.*, 24). *Cf. also* Cunningham, *West. Civilization*, 98.

endeavour to profit from an advantage from which others were excluded.

In England, where towns originated more from agricultural communities than under the stimulus of settlements of foreign merchants,[1] the early towns seem to have been much more democratic and equalitarian in character than those on the continent. Any inequality that existed seems likely to have been the inequalities of status and of landholding inherited from feudalism, and not those arising from or immediately connected with trading relations.[2] At Hereford a somewhat superior status seems to have attached to the mounted burgesses, who formed a mounted guard on a visit from the King; and the knights of Nottingham were in a similar position. At Winchester, Huntingdon, Norwich and Derby the poor burgesses who dwelt outside the walls seem to have been regarded as of inferior status,[3] while at Canterbury there are indications of precedence attaching to the older landowning families in and around the town.[4] In the struggle against the Abbot of St Albans we find a distinction between the *majores*, or superior burgesses, and the *minores*. The

[1] The chief exception to this seems to have been London, where an important factor appears to have been settlements of merchants, and where there is some trace of class division in the twelfth century. Mr J. H. Round suggests that its first attempt at self-government—the Commune of London of 1191—was of foreign origin. The idea of a commune was foreign, as was the office of *échevins*, which appeared at this date. (*The Commune of London*, 225 *seq.*). On the other hand, Burford, the first town on record to receive a charter bestowing the right of a Gild, was almost entirely agricultural; and the charter was procured for it by its manorial lord (*cf.* Gretton, *The Burford Records*, 5 *seq.*). Many boroughs in Somerset retained their rural character in the thirteenth century, numbering 'haywards' and 'pinders' among their officials. (*V.C.H.*, *Somerset*, 2; 288). *Cf. also* Lipson, *op. cit.*, 163.

[2] *Cf.* Ashley: "The hereditary possession of land would give an economic superiority to the old families when a class of landless freemen began to grow up in the town." (*Early Hist. of Eng. Wool Ind.*, Publicns. of Amer. Econ. Assoc., 1887, 18).

[3] C. W. Colby, "The Growth of Oligarchy in Eng. Towns," *Eng. Historical Review*, XX, 634.

[4] Brentano, in *Eng. Guilds*, 2.

latter in 1327 counselled violent methods; the former only dared to aid the revolt in secret, and tried to settle the issue with the abbot by the quieter, if less speedy, method of employing lawyers.[1] Here we have an interesting contrast with continental towns, which may perhaps give us a key to the underlying difference. On the continent the upper grade of burghers generally led the attack on feudal authority, rallying the other heterogeneous elements of the town population around them.[2] But in St Albans the *majores* appear to have had sufficient roots in feudal society to make them the party of compromise.

In general, however, the economic relations within the early English towns seem to have been of the type which has been described above as *classless individualism.*[3] The Gild Merchant probably only contained a section of the townsmen—those who were engaged in trade on a fairly considerable scale. But craftsmen were not excluded from it, and anyone among the burgesses who traded and could afford the entrance fee was able to share its privileges.[4] In many towns the members of the Gild were still mainly agricultural and only incidentally traders, and the freedom or franchise of the town or burgess-right was connected with ownership of land or a house within the town. Of course, there would always be a section of the population who were too poor to buy land and so were not freemen of the town, as was probably the case with the poor burgesses of Winchester, Huntingdon, Norwich and Derby, who dwelt outside the town walls. These persons would probably be unable to set up as independent craftsmen on their own, and consequently would have to hire themselves as journeymen or servants to more prosperous

[1] N. M. Trenholme, in *Am. Hist. Review*, 652–3.
[2] Pirenne, *Belg. Dem.*, 31–2, 54.
[3] *See* above, Chap. 4.
[4] *Cf.* Gross, *op. cit.*, 107. Ashley, however, is of the opinion that all craftsmen, except the richer ones, would in fact have been excluded, by the highness of the entrance fee. (*Surveys*, 216–7).

burgesses. But to obtain the franchise was not, on the whole, very difficult, and villeins were able to become, and frequently did become, freemen of the town after dwelling there " per unum annum et unum diem."[1]

Similarly, journeymen who worked for master craftsmen had always a sufficient prospect of setting up as masters on their own to identify their interests with those of their masters instead of feeling their interests to be separate. As a rule, it would seem that the disparity in earnings was not great ;[2] and as the journeyman usually worked alongside his employer in the shop and often ate at his table, his relation was rather that of a companion-worker than that of an employee.[3] When the journeyman or apprentice had saved sufficient to buy a house and set up as a master and burgess on his own, he could also join the gild and engage in retail trade, provided he were willing to pay the entrance fee for admission. There was sufficient facility of supply of new masters to prevent large profits being made out of the labour of dependent journeymen ; and there was sufficient chance of a burgess sharing in the privileges of the Gild Merchant to prevent those privileges from conferring a close differential monopoly. Inequalities of landholding and of wealth and of

[1] Colby, *loc. cit.*, 639.

[2] Mrs Green, *Town Life*, II, 64. " Inequality of fortunes among the artisans seems to have been very rare ; and this organization deserves the title of non-capitalist " (Pirenne, *op. cit.*, 90) ; Townsend Warner, *Landmarks*, 61, etc.

[3] *Cf.* E. R. A. Seligman : " A conflict of interests was generally unknown, the journeyman always looking forward to the period when he would be admitted to the freedom of the trade. This was, as a rule, not difficult for an expert workman to attain. . . . It was a period of supremacy of labour over capital ; and the master, although nominally so-called, was less an employer than one of the employed. . . . The relations were in the main harmonious, and there was thus no wage-earning class as distinct from the employers or capitalists and arrayed in hostility against them." (*Two Chapters on the Mediæval Gilds*, Publicns. of the Am. Econ. Assocn., (1887), 90.) Mr R. H. Gretton says that in the early gilds "it is impossible to find any distinction of status between a trader, a master and a journeyman." (*Eng. Middle Class*, 65).

opportunities for securing the gains of trade there certainly were, and with them went differences of status and esteem. The actual political initiative probably belonged, as a rule, to a few of the richer and more respected burgesses, whose judgment inferior burgesses would generally be loath to gainsay. But these inequalities were very much smaller in scale than those of modern communities, and the differential advantages which existed do not seem to have been sufficient to cause any cleavage of class interests. Compared with feudalism, out of which it arose, and the urban class divisions of two centuries later, the early towns in England seem to have been the nearest approaches to free and equal communities that we are likely to find.

The control of the market, therefore, which the town Gilds struggled to secure, can generally be regarded as having been exercised in the interests of all the townsmen. Some of the major burgesses may have gained rather more than their fellows from Gild privileges; but at the outset the fruits of the urban market system were distributed, on the whole, fairly generally over all. It was not till later, when the towns had become successful and prosperous, that a class division arose, and an aggressive aspect of urban policy appeared, dictated by the interests of a few.

This urban policy, which has its centre in control of the town market, was a very important factor in aiding the prosperity of the towns and so in nursing nascent commercial enterprise. Without it the new towns would have been unlikely to develop an independent social life of their own. Weak and poor and dependent, they would scarcely have been fitted to be the foundations of a whole new moneyed system of social life. One aspect of the matter has usually been stressed in the fact that control of the market carried with it the right of levying market dues and tolls. As a source of town revenue this relieved the burgesses of a part of the heavy burden of *scot* and *lot* payments, which they made in contribution to the collective liability for *Firma Burgi* or for the price of charters and privileges ; and this was by no means an unimportant consideration. But there is another side to the matter, which has not always received so much attention. Control of the market was for its possessors an important instrument of monopoly. Giving, as it did, the right of prescribing regulations as to who should trade and when they should trade, it carried a valuable power for the town to tip the balance of all market transactions in favour of its members. This, of course, the town could not do arbitrarily : it could only affect the balance of exchange by influencing conditions of demand and supply of the things in which the town traded. But if it could limit certain dealings to its own members; if it could put minimum prices on goods which townsmen were likely to sell and maximum prices on goods which townsmen were likely to buy ; if it could preclude strangers from combining and gaining wide knowledge of the market and from holding back part of their supplies, while it left opportunities for townsmen to do all these things, then clearly the town possessed considerable power of influencing the balance of exchange to its own gain. It had the power to put the town in its dealings in a position of advantage and those with whom it traded in a position of disadvantage. Further, if it were able to restrict the competition of sellers in the case of the things which the townsmen sold, while increasing as far as possible the substitute markets for supplies which the townsmen themselves required, then the monopoly advantage of the town was still further strengthened. Urban policy, therefore, starting probably as an incoherent, ill-considered and often ill-devised scheme of some Gild alderman or mayor, was essentially a policy of monopoly. Its aim was to raise the demand-price of the town's customers, and to lower the supply-price of those from whom it bought.[1] The acquisition of this monopoly was the prime reason for the contest of the towns with feudal authority; and the possession of it was the chief factor which raised the new communities to a position of wealth and social influence.

The commercial dealings of the townsmen were with two main groups of persons. First, they were with the rural producers of food in neighbouring villages and country estates, who might be villeins and cottars who had a surplus to sell, or small yeomen farmers, or even some of the lesser feudal nobility, squires and manorial lords. Second, they were with stranger merchants who came to sell exotic products in the town and to buy in return the products of town and village handicrafts. One of the principal objects of market regulation was, therefore, to give an advantage to the burgesses in their dealings with these two groups of persons.

First, there were the regulations included under the Assizes of Bread and of Ale and of Wine. "The town's chief concern with corn prices was to prevent them from being enhanced by interested parties. Indeed, this was the underlying purpose in all of the regulations."[2] Sometimes wood, coal, tallow and candles were regulated as well. To ensure a cheap supply of these things, the Assizes provided for the fixing of maximum prices, and "searchers" were appointed to inspect houses and shops to ensure that the regulations were not disobeyed. To aid

[1] *Cf.* Schmoller: "The soul of that policy is the putting of fellow-citizens at an advantage and of competitors from outside at a disadvantage. The whole complicated system of regulations as to markets and forestalling was nothing but a skilful contrivance so to regulate supply and demand between the townsman who buys and the countryman who sells that the former may find himself in as favourable a position as possible, the latter in as unfavourable as possible in the business of bargaining. The regulation of prices within the town is to some extent a mere weapon against the seller of corn, wood, game and vegetables from the country." (*Mercantile System*, 8–9); *cf. also* Ashley, *Introd.*, 7 *seq.*

[2] N. S. B. Gras, *Evolution of the English Corn Market*, 68.

this inspection, there was strict prohibition of all selling outside the market, and it was fairly common for particular streets or particular parts of the market to be reserved for stalls of one class of goods.

In the second place, there were stringent prohibitions of all "forestalling" and "regrating." No stranger might purchase food until the townsmen had bought all that they required; and no one might buy except for his own use. Down to Tudor times, and even later, one of the most heinous offences against social morality was the buying of food wholesale in order to sell it again;[1] and the popular prejudice which still exists to-day against that inevitable scapegoat, the "speculator," can not unreasonably claim for its ancestor this thirteenth-century moral code.

In their relations with strangers the aim of the burgesses was to prohibit dealings with any but themselves. Many of the wares which the foreign merchants brought were luxuries to suit the taste of noblemen and gentry. It was clearly advantageous to the townsmen if they could install themselves as middlemen and so have a monopoly in this lucrative trade. They could thereby probably lower the price at which the foreign merchant would sell, and raise the price at which the country gentleman, with narrowed range of substitute supplies, was willing to buy. To this end the stranger was forbidden to deal with those who were not members of the Gild, and was only allowed to sell retail at times of fair. "Traders from outside were welcome when they brought with them foreign commodities which the burgher merchants could make a profit by retailing, or when they purchased for exportation the commodities which the burghers had procured for that purpose from English craftsmen and agriculturalists. They were welcome, so long as they were ready to serve

[1] *Cf.* Ashley, *Introduction*, Bk. II, 30–1; Mrs Green, *Town Life*, II, 35–9; Pirenne, *Belg. Dem.*, 80–1; Gretton, *English Middle Class*, 42.

the interests of the burghers; and when they sought to thrust these on one side they seemed to be violating the very conditions upon which their presence was allowed."[1] As insurance that these regulations were not avoided, the prohibition of all sales outside the market—outside, that is, both in time and place—was again important. In addition, it was provided that every stranger who came to trade should be lodged with a host; the host being a householder in the town who could ensure that the visitor's conduct was seemly and proper during the period of his stay. This provision reduced to a minimum the possibility of market agreements among strangers to the detriment of the townsfolk; and much of the bitterness against the foreign merchants of the Steelyard in London was their possession of a privileged establishment of their own, where they could intrigue and organize to their hearts' content while the merchants of London had no power to prevent them.

Now, competition of townsmen with one another might well weaken any advantage which the town possessed in any of these ways against the country folk or against stranger merchants. Accordingly, to prevent this, the townsmen themselves submitted to certain regulations, for the enforcement of which the officers of the town and of the Gild were responsible. Minimum prices were fixed for goods sold by burgesses. Great care was taken lest competition should creep in through a back-door by a lowering of quality, which incidentally would harm the repute and the trade of the merchants of the town.[2] Work done at night was a principal way in which an unscrupulous craftsman could avoid the vigilance of the official "searchers" and evade the regulations. Consequently night-work was forbidden.[3] In some cases

[1] Ashley, *op. cit.*, 14; *cf. also* Mrs Green, *op. cit.*, 37–40; Schmoller, *op. cit.*, 11; Gross, *op. cit.*, 46–8.
[2] Ashley, *Introduction*, Bk. I, 75; Pirenne, *op. cit.*, 86–8.
[3] Ashley, *op. cit.*, 91.

burgesses were given the monopoly of purchase of some material which was essential for some town craft. "With the object of preventing any advantage which could be secured to the town from falling to the inhabitants of the surrounding districts, it was sometimes ordered that certain commodities should not be sold at all to persons 'dwelling out of the town.'"[1] For instance, the town butchers were sometimes not allowed to sell their tallow to any but the town chandlers. On certain occasions the town adopted collective bargaining, especially at times of scarcity of corn or in respect of essential raw materials.[2] For instance, at Liverpool all imports had first of all to be offered for sale to the Mayor on behalf of the town. If he saw fit to purchase collectively, he would then subsequently sell to the townsmen at a reasonable price.

If we give due weight to these considerations, it is not difficult to see why the towns should have thought these rights and privileges of the market worth so much blood and sacrifice and struggle and so much money. Possessed of these opportunities, the town was usually assured of prosperity. If the town were dispossessed, those very instruments of market control might be turned against itself; its citizens might be condemned to labour as dependent artisans, or at best as mere pedlars and husbandmen, bullied by noble customers, victims of the caprice of a restless market, forced to yield to others the fruits of their labours.

In the struggle over this monopoly there were, as the last Chapter showed, two principal phases. First, there was the struggle for market rights, signalized usually in the grant of a Gild Merchant. Second, there was the struggle for political power within the town to make control of the market effective. The kernel of the issue

[1] *Ibid.*, Bk. II, 20.

[2] *Ibid.*, 33–9; Cunningham, *Progress of Capitalism*, 67; Gross, *op. cit.*, 135–7.

was usually the right of jurisdiction and of arrest.[1] But the matter did not end here. There were other factors to be considered outside the area of the town which had a very important bearing upon any monopoly which the burgesses might enjoy. Consequently, a third phase of urban endeavour usually followed, after the town community had established its independent position by market rights and political rights. This third phase was concerned with consolidation and extension of the town monopoly. It was no longer autonomy within the town boundaries that was in question ; it was the assertion of the town's privileges against the claims of rivals outside.

First among these further issues came the matter of rival markets. If other markets existed close to the town in question, clearly the advantage of the latter was lessened considerably. Not only was the volume of trade with the burgesses lessened, but country folk and strangers alike had alternative sources of sale and purchase, and the monopoly position of the townsmen was to that extent weakened. One of the causes of the trouble, as we saw, between Bristol and the lord of Berkeley, was the latter's claim to hold a separate market at Redcliffe Street. At Canterbury it was the Archbishop's markets at Westgate and Wingham which aroused opposition. The general prevalence of this attitude towards rival markets throughout feudal times is, in fact, the best possible witness to the purpose for which control of the market was valued. We find strong protests from the Abbot of St Edmunds when the monks of Ely set up a market at Lakenheath. The protests were backed by the threat that he would go " with horse and arms to destroy the market " ; and this threat the Abbot carried into execution, going with an expedition of 600 men at dead of night.[2] The market

[1] Sometimes, of course, this occurred in inverse order, but these cases were the exception.
[2] Lipson, *op. cit.*, 213.

at Lyme was condemned as being too near Bridport. The Prior of Rufford in 1302 was restrained from holding a market at Haddenham to the prejudice of Thame.[1] London tried to forbid citizens to attend fairs or markets outside the city.[2]

Quite frequently towns extended their authority over the surrounding district, thereby bringing pressure to bear on the villages to deal only with the town market;[3] and we find a similar tendency in Italian communes, German imperial cities, Swiss towns and some Dutch towns to extend their authority over surrounding villages, estates and smaller country towns, and so to expand into small principalities.[4] Ulm and Florence, for instance, forced all the cattle in the surrounding districts to be brought into the city.[5] Venice tried to forbid commercial dealings of other cities with the countries whence she drew her food supplies, and she compelled subject towns to buy only from Venetian merchants.[6]

Second was the desire to attract to their market a large number of competitors among all those with whom the townsmen dealt. It was to encourage this that a town was willing to relax some of its monopolistic regulations on the occasion of special fairs. For, these fairs were for the town a species of advertisement: they attracted to the town buyers and sellers from all over the land. It was for this reason that the possession of a bridge or a principal highway near the town was a great benefit in bringing before the burgesses a plentiful supply of merchants and their wares; and it is probably this which accounts for the strong fear always possessed by townsmen lest the control of tolls on a neighbouring bridge or river by some

[1] H. Liddell, *Hist. of Oxford*, 553 [2] Lipson, *op. cit.*, 212.
[3] *Cf.* Mrs Green, *Town Life*, I, 3.
[4] Schmoller, *Merc. System*, 13–14; Keutgen in *Encyclopædia Britannica*.
[5] Schmoller *op. cit.*, 31.
[6] J. L. Sismondi, *Hist. of Ital. Republics*, (ed. Boulting), 244.

alien authority might be used to the detriment of the town's trade. This was the reason, too, that made towns willing to pay so highly for staple rights. "All the resources of municipal diplomacy," as Schmoller has expressed it, " . . and, in the last resort, of violence, were employed to gain control over trade routes and to obtain staple rights: to bring it about that as many routes as possible should lead to the town, as few as possible pass by; that through traffic, by caravan or ship, should, if possible, be made to halt there, and goods *en route* exposed and offered for sale to the burgesses."[1]

Third, it was in the interests of the burgesses to widen the market for themselves by obtaining special privileges in other trading centres. Many of the urban charters included a clause granting immunity from tolls throughout the realm; and privileges of trading with native burgesses in other towns were eagerly sought after. For this purpose agreements were often made, by which merchants of one town secured privileges of trade in another; and in many places there prevailed an elaborate system of discriminating tolls whereby the merchants of one town were favoured and those of another were penalized.

From these claims arose rivalries and conflicts between different towns, as well as between towns and neighbouring lords.[2] We find that "the mediæval towns of one and the same country regarded each other from a mercantile point of view with much more jealousy and hostility than different states now do."[3] "Ely was jealous of Cambridge, Bath of Bristol, Lynn of Boston, Oxford and Winchester—and, indeed, all the rest—of London."[4] Stratford

[1] Schmoller, *op. cit.*, 10.

[2] "Internecine quarrels were often connected with the desire of each town to maintain its monopoly and especially to secure exclusive access to harbours on the more important commercial routes." (Cunningham, *West. Civilization*, 127.)

[3] Gross, *op. cit.*, 51.

[4] A. Law, *English Nouveaux-Riches of the 14th Century*, Ryl. Hist. Society Transactions, N.S. IX, 51.

warred with Coventry and Leicester with Ashby and Loughborough.[1] Abroad, the cloth Staple at Antwerp carried on a bitter struggle for a century against the wool Staple at Calais; and the rivalry of the Hanse with the merchants of Copenhagen led to a six years' war in 1546 between Denmark and Lubeck.[2] In Italy the prosperous communes exhausted themselves by quarrels and internecine wars throughout the twelfth and thirteenth centuries, which, combined with the depredations of feudal quarrels, weakened their position considerably in relation to the Church and the nobility.

It was during this third phase of the struggle for town monopoly that in Germany the opposition of the feudal lords seems to have been aroused, in most cases with the result of an eventual triumph for feudalism. This occurred, especially in North-east Germany, where feudalism was strong, in the course of the fourteenth and fifteenth centuries. What aroused the resolute opposition of the country squires appears to have been the attempt of the towns to extend their monopoly. It was complained that countrymen were cheated when they sold corn and wool and cattle in the towns, and that price-lists were drawn up without the assistance of any representative of the interests of the squires. In rejoinder the towns complained that the lords carried on trade on their own account and so infringed the market rights of the towns. In this contest the first important success of the squires seems to have occurred in Brandenburg in the fifteenth century, when they secured the right to dispose of their produce themselves, and for the countryfolk generally a freedom of choice of alternative market towns. Later, several powerful cities were deprived of their staple privileges and coinage rights; and territorial princes took to them-

[1] G. Unwin, "Commerce and Coinage," in *Shakespeare's England*, I, 315.
[2] C. Walford, in *Ryl. Hist. Socy. Trans.*, *N.S. IX*, 114.

selves the rights of toll and of supervision of the crafts. These princes proceeded to organize their principalities as new economic units, in which the authority of the towns was rigorously subordinated to that of the feudal prince. The towns were absorbed in a wider economic and social life, in which the control of trade by the mayor had given way to control of trade by the territorial lord.[1]

This was, perhaps, a not unimportant cause of the decline of commercial enterprise in Germany in the sixteenth century, and the predominance once again of feudal psychology and feudal manner of life.[2] Whereas Britain was to be the home of the proudest commercialism in the course of the next three centuries, in Germany the first sproutings of capitalist undertaking were to be frosted. Undertaking in Germany was to remain cast and cramped in a feudal mould, and the spirit of individual enterprise was to be submerged beneath the tradition of feudal paternalism.

In Spain the development of capitalist undertaking seems to have received a rather similar set-back. "The spirit of enterprise faded away. The nation turned from economic activities to religion, court-life or knightly exercises. Business had the same taint that appertained to agriculture."[3] The Crown was here strong, the Church was even stronger, and the feudal enterprise of migratory sheep-rearing had a powerful organization in the famous *Mesta*.[4] At first the Crown had supported the towns and fostered them, especially during the troubled period of the Moorish wars. But in the *Mesta*, grown rich on the profits of wool-trading, it had a wealthy feudal ally from whom to draw financial support. As a result, the *Mesta*,

[1] Schmoller, *op. cit.*, 16–37.

[2] *Cf.* Sombart: "A feudalizing process made itself felt in Germany even before the end of the sixteenth century." (*Quintessence*, 142.)

[3] Sombart, *op. cit.*, 135.

[4] Numerically small sheep-owners predominated in the *Mesta*, but big nobles and monasteries were undoubtedly in practice the dominant force in its counsels.

when it came into conflict with the claims of the towns, was usually able to rely on the support of the royal officials.[1] The outcome of the struggle, therefore, was not a victory for the rising merchant class, as in England, but the expulsion of the Jewish bankers, and the triumph of that marvellous—and perhaps misrepresented—institution, the Inquisition.[2]

There seems, therefore, good reason to claim for this struggle over the market and over the policy of urban protection or monopoly a place of prime importance in the birth of commercial enterprise. The forms which this enterprise took, and the places in which its development was earliest and most successful undoubtedly depended in large part on the outcome of this struggle. For the commercial success of England from the fifteenth century and the commercial eclipse of Germany and Italy it is usual to cite as causes the opening up of Atlantic trade routes and the decline of those in the Baltic and the Near East.[3] But the extent to which the new commercial enterprise emerged victorious from its contest with feudalism was probably as important a cause as these others. Indeed, it may well have been more important; for, who can say that the openng of the New World was not as much an effect as a cause of the new commercial spirit which gave such freshness and such brilliance to Tudor "Merrie England"? If feudal ideas and customs had remained enthroned in England as they did in Spain, English commerce might have borne the same taint as Spanish colonialism—a rapacious scramble for gold to fill the coffers of feudal grandees and of the Church. Instead,

[1] Klein, *The Mesta*, 352 *seq.*

[2] *Cf.* F. List, *Natl. System of Political Economy*, 58–9. The main aim of Spanish colonialism was to secure gold—a feudal conception. England and Holland, as List points out, used colonies as *markets* and sources of materials.

[3] This explanation receives trenchant criticism from Sombart in *The Jews and Mod. Capitalism*, 11.

English ocean commerce was a revolutionary and creative force. If the profits of market and staple monopoly had not whetted the appetites of English merchants, it is doubtful whether their taste for adventure in the unknown Indies would ever have been so keen as it was.

CHAPTER FIFTEEN

The Beginnings of Capitalist Undertaking

The new mediæval towns, however, did not continue for long to approximate to classless individualism. There soon were signs that the fruits of urban policy were no longer being shared equally by the whole body of burgesses, still less by all the inhabitants of the town ; and there was shortly to appear a new species of monopoly, resulting in a definite class cleavage in the towns, and having the effect of securing the bulk of the profits of trade to a favoured few. This change was marked in the principal towns of most countries by a double tendency. A group of the richest and most influential merchants acquired the dominance of municipal government and at the same time endeavoured to secure for themselves a monopoly of wholesale trade. This change signalizes the break-up of the early classless town economy. Thenceforth we have no longer merely urban enterprise, seeking to protect itself in a new way of livelihood and to assert independent rights against feudal restriction ; we have the beginnings of capitalist enterprise, confident and aggressive in the might of moneyed advantage, nursing dreams of expansion and supremacy. Without this further step the towns might have remained merely prosperous trading colonies set in an otherwise mediæval world. There would have been small likelihood of the expansion, captained by profit-seeking merchant princes, from local trading to national and to bold adventuring overseas.

In Continental towns there had always been much difference in status among the burgesses, as has already been remarked. During the period of struggle against feudalism these differences were, as a rule, subordinated to the general unity of the townsfolk. The superior burgesses were more intent on asserting urban claims and retaining the support of their fellow townsmen than in pressing the advantage of their own position. But once the claims of the town had been established, the initial inequalities tended to increase and to add to themselves fresh advantages which the major burgesses contrived to secure.

In Netherland towns the close of the twelfth century already saw this process begun. The Gilds of the larger towns, having won victory against nobles and church, had now become close corporations of the richer merchants. These seem unblushingly to have schemed to monopolize wholesale trade; for, they levied an entrance fee which was "beyond the reach of the smaller men," and explicitly excluded from their ranks all those who weighed at the *tron* or town weighing-machine—the retailers, and all those with "blue nails"—the handcraftsmen.[1] Debarred by this monopoly from trading wholesale in his products and his raw materials the artisan now found himself in a position of dependence. Formerly town regulations had protected him (if he were a burgher) in his relations with wholesale merchants; whereas now under cover of urban trade regulation a monopoly of wholesalers had been set up against him. Unless he was content to sell his own goods retail in the local market and to forgo a wider range of custom, the Gild monopolists were usually his only customers, and from them likewise he had usually to resort for purchase of the materials of his craft. In cases where the local market was most important, as in Hainault, Namur and Liége, the interests of the craftsmen were not seriously damaged. But in the

[1] *Cf.* Pirenne, *op. cit.*, 112; *also* Brentano in *Eng. Guilds*, cvii.

wool crafts of Flanders and in the copper-working of Dinant and the Meuse valley, where foreign supplies of raw material and markets wider than the locality were necessary, the craftsmen were reduced to actual dependence.

The result was the appearance of a system of dependent industry, organized by big merchant undertakers. Under this system undertakers gave out raw material to numerous small masters, who owned their own workshops and tools and employed a few journeymen to aid them. These craftsmen received in payment the difference between the price of their product and the price of the material. But this was not a "natural value" unaffected by institutions: it was essentially determined by the dependent position of the craftsmen. It was affected by the fact that, in the absence of alternative supplies and the power to purchase materials freely, the craftsman's demand-price for materials was relatively high, while at the same time, with few alternative buyers to whom to sell his products, the craftsman's supply-price for his handiwork was relatively low. The difference between the two prices—the craftsman's income—was in such circumstances almost certainly lower than it would have been had he possessed the ability to trade wholesale himself.[1] The payment which the craftsmen received was, in fact, a kind of commission-price for work done, a prototype of the modern wage-contract.

This class division, though not quite universal, was clearly marked in the thirteenth century in the big towns where the wool and copper industries thrived. A matured specimen of this early type of capitalist undertaker was Jean Boine-Broke, Draper and Sheriff of Douai, who bought raw material and gave it out to numerous crafts-

[1] Or, if the competition among wholesalers, *i.e.*, the number of alternative sources of sale and purchase, had been as great as it was among craftsmen.

men, paying them a commission-price for working it into cloth, and sometimes having it finished in his own workshop. "He had reduced his employees to a condition of helpless dependence. They were most of them in debt to him, many lodged in houses rented by him, and he had established a kind of truck system."[1] But, though this gentleman's name was the most famous, there were plenty of his tribe who flourished in Dinant, Lille, Bruges, Ghent, St. Omer, Brussels and Louvain. They had ample opportunities to grow rich and famous, since Flanders in the thirteenth century was the great *entrepôt* of traffic in North Europe, and once the opportunity was gained of sharing in this trade, there was a fortune in it for any but the most stupid or the most ill-starred. It was easy money, and the advantageous position was quickly obtainable of trading wholesale on a large scale. "The resources at their disposal enabled them to buy by hundreds at a time, quarters of wheat or tuns of wine or bales of wool. . . . They alone were in a position to acquire those precious English fleeces, the fine quality of which assured the repute of Flemish cloth, and as owners of the raw material, of which they had, in fact, the monopoly, they inevitably dominated the world of industrial labour."[2] On the obverse side the picture was less pleasant. The gains of the tribe of Boine-Broke were at the expense of reducing the worker to a position of dependence and servitude; and an emissary of Edward III. had some harsh words to say about the latter's position. He was amazed at "the slavishness of these poor servants, whom their masters used rather like heathens than Christians, yea, rather like horses than men. Early up and late in bed, and all day hard work and harder fare (a few herrings and mouldy cheese), and

[1] A. H. Johnson, *Hist. of the Company of Drapers of London*, Vol. I, 76–7; *also cf.* Pirenne, *op. cit.*, 97, 100.
[2] Pirenne, *op. cit.*, 98–9.

all to enrich the churls their masters, without any profit unto themselves."[1]

The protection which municipal regulations, framed in the interests of townsmen against wholesalers from outside, might have given to the artisans was soon circumvented by the merchants. As early as the twelfth century a movement for co-operation between the wholesale merchants of the leading towns was already well under way. Agreements were formed for the mutual exchange of privileges; and the localism of the older urban gilds, with their urban exclusiveness, gave way before the wider national unity of the Hansa of the wholesale merchants from the leading Netherland towns. The Hansa was definitely a class organization, being composed of the upper layer of rich burghers in the various towns, and aimed to secure special privileges for the Hansa merchants as against "interlopers" and rival merchants of other countries. The Hansa of London, constituted of merchants who traded in English wool, was a special object of favour from the English Crown;[2] and fortunes in this English-Flanders wool trade were swift and glorious.

At the same time the localism of the old urban system was to be broken by a political change, subordinating urban life generally to the centralizing tendency which the new Hansa and the capitalist undertakers favoured. Political power was to pass into the hands of the rich burghers, who came to be known, from an imperfect classical analogy, as "the patriciate." The *échevins*, who had formerly been elected by the whole burgher body, were now appointed by the patricians from among themselves; and these supervised the crafts, regulated wages, and generally governed the affairs of the town and the

[1] Quoted by Ashley, *Early Hist. of Eng. Wool Indy.*, Publicns. Am. Econ. Assocn., (1887), 43.

[2] Pirenne, *Histoire de Belgique*, Vol. I, 271.

town market in line with the interests of the new capitalist class. "The *majores*, the *divites*, the 'great men,' henceforth governed the *minores*, the *pauperes*, the *plebei*, the 'lesser folk.' . . . (They) monopolized the whole municipal administration . . . (and) the government was in the fullest sense a class government."[1] In German towns the same thing occurred. In some cases the patricians placed the main burden of the taxation on the artisans; and in Strassburg "some of the ruling families extorted from the craftsmen a yearly rent of from 300 to 400 quarters of oats," while in Cologne "the craftsmen were almost serfs of the patricians."[2]

From the church and the nobility these rich merchants still remained fairly clearly separate; and the princes, who had increasing reliance on the merchants for money, were always anxious to propitiate them by advancing their power. There was, therefore, little of that compromise with feudalism which appeared in many of the Italian towns, the merchant class being strong enough to maintain its position intact. There was, however, a tendency for a section of the urban patriciate to retire from active undertaking and to buy land, partly because land was a good investment, but also to vie with the nobility in cultivating the sweets of a leisured life; and Werimbold says of them: "*Census accrescunt censibus, et munera muneribus.*" This leisured section of the patriciate came to be known as the *viri hereditari*, *boni homines*, or *otiosi*, as the people nicknamed them; and, like true gentry, they looked down on the populace of the towns as inferior persons and demanded to be honoured with the titles of "sir" and "lord."[3] But this pursuit of gentlemanly arts remained purely a recreation and a bye-

[1] Pirenne, *Belg. Dem.*, 110, *also* 115, 129; *cf. also* Pirenne, *Hist.*, Vol. I, 369 *seq.*
[2] Brentano, *op. cit.*, cix, cx; *also* Keutgen in *Encycl. Britannica*, Vol. VI, 787.
[3] Pirenne, *Belg. Dem.*, 110–1, 114.

interest of the merchant class. It did not obsess and dominate their habits and their moral standards as it tended to do in Italy and Spain, where feudal habits were absorbed before the new spirit of commercial enterprise had reached full maturity and come to victory. It was an adaptation of certain feudal standards to the new conditions, rather than a surrender of the new spirit to feudalism. The capitalist spirit still remained keen among the large active section of the patricians, and there was never any acute cleavage between the two. "Each patrician family comprised members belonging to both categories. The former was continually recruited from the second, and this in its turn opened its doors wide to the sons of the *otiosi* who wished to devote themselves to commerce."[1]

This break-up of the old urban localism with its petty industry was economically a progressive step. The capitalist undertaker with his Hansa was, perhaps, a more revolutionary force than had been the old trader with his gild in the struggle against feudalism. The latter had burst the fetters of the Dark Ages ; the former was laying the foundations of the modern world. Under the rule of the patricians Flanders thrived at a time when English towns were still obsessed in petty squabbles with abbots and manorial lords, and the proudest English merchant was a common fellow who lived in a squalid little house in the meanest circumstances. The patricians introduced a degree of specialization in production ; they inaugurated production for a wide market in place of the old urban economy, marked usually by the direct contact of craftsman and customer. They raised the art of speculation from the mediæval disrepute attaching to "regrating," and so commenced the habit of measuring economic quantities by careful attention to the two sets of prices—costs and returns. Through them the great

[1] *Ibid.*, 113–4.

requisite of a differentiated economy—the principle of substitution—began to work, clumsily and roughly at first, but later with increasing ruthlessness and efficiency as the area of economic mobility widened. As an age of construction this age of patrician rule was unsurpassed in mediæval times and was not excelled for many subsequent centuries. It was an age of building of market halls and aqueducts, warehouses and wharves, locks, bridges and canals; and from this period we can date the reservoir of Dikkebosch and the Cloth Hall of Ypres.[1] It is notable, too, that the new class brought with it a demand for a new type and new methods of education; and new schools independent of the Church were developed by the patronage of the new merchant class. In many cases, in fact, there were severe conflicts with the clergy over this matter, not because of any doctrinal difference, but because the burgesses wanted an education in line with their new needs, and not an education dominated by the old standards of church teaching.[2]

But it was not long before the craftsmen organized a resistance to this new state of affairs. It was but recently that they had been independent and free, and the memories of the oldest of them retained, perhaps, some trace of this happier *régime*. Still possessed of an ideal of the past, they struggled to win the past back again. In this struggle the leaders were generally the artisans of the wool crafts; for it was these who were most affected by the new capitalist industry; and the master artisans were joined by the journeymen whom they employed as companion workers in the mediæval manner. In some cases, even, the Church and the nobility gave support to the craftsmen against their hated rivals. The result was a ruthless class war which developed by the middle of the thirteenth century. In 1225 there was a rising at Valenciennes, where the patrician

[1] *Ibid.*, 120–1. [2] *Ibid.*, 121–3.

magistrates were deposed and a commune was set up. After a siege of the town, however, this was suppressed, and the movement died down until 1245, when a series of *takehans* or strikes spread over Flemish towns. In 1254 there was a rising at Dinant which was suppressed by the Bishop of Liége, and in 1274, after unsuccessful risings at Ghent, the artisans seceded to form a separate community at Brabant. For a time the patriciate was able to maintain the upper hand. " The Hansa of the 17 towns . . . seems to have lost any other object except to uphold the interests of the patrician government against the claims of the workers."[1] Weavers and fullers were forbidden to carry arms or to meet more than seven at a time. Strikes were ruthlessly punished. But in the fourteenth century the struggle continued with fresh vigour, complicated by the support which Philip the Fair of France had given to the patricians, and by the fact that the artisans looked for support to the Count of Flanders, and held up to execration the lily of France as the emblem of their oppressors. The resulting class war, which had the form of a national war of the Flemings against the French, was ruthless and bitter. It began in 1302, when there was a general rising throughout Flanders, and at Bruges the French and the patricians were ruthlessly massacred. It was concluded in 1320, when the French had been routed by the Flemings at the Battle of Courtrai.[2]

The result of the struggle was generally a victory for the crafts ; and the power of the merchants was seriously curtailed. At Liége, where the Cathedral Chapter had supported the people, the offices were divided equally in 1330 between the merchants and the artisans. At Utrecht a democracy was introduced on the basis of the equality of the crafts. At Dinant the government was divided between the merchants, the large craft of copper-

[1] *Ibid.*, 132.
[2] Pirenne, *Hist.*, Vol. I, 405 *seq.* ; *cf. also* Brentano, *op. cit.*, cx–cxi.

smiths and nine small crafts. At Bruges and Ghent the artisans regained part control of the *échevins;* and the crafts themselves were made autonomous instead of being subject to the authority of the magistrates.[1]

But this triumph of the democratic movement gave a definite set-back to the capitalist tendencies which had been developing in the previous century. The supremacy of the local market was restored, and everything possible was done to safeguard the monopoly of local industry exercising authority through its craft gild; and there was a recrudescence of strife between towns over the possession of staple privileges. The authority of the towns was also extended over the surrounding countryside. The manufacture of cloth was forbidden in the districts round Ghent, Bruges, and Ypres; Poperinghe was made definitely subservient to Ypres, and Grammont, Oudenarde and Termonde to Ghent. The Hanse merchants were deprived of some of their privileges, and some of the small masters were enabled to engage in wholesale trade and to prosper.[2]

But the success of the craftsmen in returning to mediæval independence was never more than partial. It placed a check on the development of capitalist undertaking, but did not abolish the latter; and in the big centres of the cloth and copper trade like Bruges and Dinant the control which the craftsmen secured was very incomplete. The undertakers began to evade the town monopolies by employing craftsmen in villages outside the area of town control. As a result a domestic wool industry began to make busy the life of the countryside; and the new ports of Amsterdam and Antwerp rose to pomp and riches as centres of this new trade, as Bruges, hampered by anti-capitalist restrictions, tended to decline. In the fifteenth century, moreover, capitalist undertaking regained its lost pride and freedom. The House of Burgundy, in the

[1] Pirenne, *Belg. Dem.*, 162–3. [2] *Ibid.*, 164, 166–171.

person of Philip the Good, united firmly under its control the major part of the Netherlands; and this new régime recognized that its interests lay in a development of the commercial prosperity of the country. It had a powerful administration and desired to establish its position by a process of political centralization—a process which was supported by the clergy and the nobility, by the *otiosi*, whose sons hoped to be given posts in the royal service, and by the export merchants, but was obstinately resisted by the craftsmen and local traders, who saw in it a threat to their town privileges. The victory, however, went with fair ease to the national party. The towns, because of the separation of their interests and their psychology, failed to combine, and they were divided within themselves in so far as the richer burghers gave support to the Prince. The fiercest resistance came from Liége, which held out heroically, but was defeated by Philip and the town ruthlessly sacked for its obstinacy. Ghent and Bruges were similarly beaten. Henceforth the control of urban administration was shared by the Prince's officers, and these were now mainly drawn from the merchant capitalist class. The central government shared the right of appointing the magistrates; a right of appeal from the town to the national tribunal was created; and the town jurisdiction over neighbouring towns and villages was broken. In addition, special staple privileges were abolished. Secure in a strong national administration, the new commercial undertakers were free to explore new fields of enterprise and to climb the heights of new achievements.[1]

In the cities of North Italy the position seems to have been considerably more complex than was the case in the Netherlands; and here, in fact, as early as the eighth century in some Lombard towns there was a definite upper rank of merchants, the *majores et potentes*, who had

[1] *Cf.* Pirenne, *Belg. Dem.*, 188–209; *Histoire*, Vol. II, 347 *seq.*

to provide themselves with a horse, a lance, a shield and a cuirass.[1] These may have been no more a distinct class than the mounted burgesses in some English towns; and the distinction certainly seems to have been a feudal one. But everything seems to indicate that these cities were very much further removed from democracy and equality than was the case elsewhere. This, in so far as it is the case, would help to explain the outcome of the struggle against feudalism in the twelfth century in a compromise between the upper class of burghers and the nobility. In consequence of this compromise we find a curious situation. The merchants tended to become absorbed into feudalism instead of supplanting it as they tended to do elsewhere; and this union of the richer merchants with the nobles set a cleavage between them and the mass of the burghers—the smaller traders and the artisans. The bankers and the export merchants who traded across France and Germany and into the Levant in wool and cloth and silk were able to join with the nobles in dominating the government of the towns and in controlling the gilds. From the urban administration "the great mass of the population, the artisans, the tradesmen, were altogether shut out,"[2] and many of the artisans appear to have remained in semi-feudal service to Bishops and noble families. In matters of trade the burgher oligarchy was also supreme. The large gilds of the export merchants had a monopoly of the trade in which they were engaged and imposed conditions and regulations on the lesser gilds below them. These latter, in their turn, placed restrictions on apprentices from setting up as masters, and maximum wages were enacted for workmen, who at the same time were forbidden to combine. "Practically

[1] Keutgen in *Encycl. Britann.*, Vol. VI, 788.

[2] W. F. Butler, *The Lombard Communes*, 80; *also* E. Dixon in *Trans. of Ryl. Hist. Socy.*, N.S., XII, 160.

the workman was the master's serf."[1] The whole structure was, therefore, a carefully graded system of monopoly with the dependence of wage-earners on craftsmen, craftsmen on traders, and traders on the rich burgher aristocracy at the top.

As a result of this system of monopoly the semi-feudal burgher aristocracy assumed the *rôle* of capitalist undertakers as did the patricians of the Flemish towns. Quite early in the 14th century this type of undertaking, half-capitalist, half-feudal, made its appearance in the wool industry; and it seems that undertakers not only gave out work on a commission system to small masters, but actually controlled workshops of their own. For instance, in 1338 in Florence there were 200 shops engaged in cloth manufacturing, said to employ a total of 30,000 workmen.[2] With this cloth they traded across the Alps into Western and Northern Europe, and eastward, it has been said, as far as China.[3] Farming Papal revenues was also a lucrative employment for the wealthy burghers, and money-lending and banking excelled commerce in a city like Florence. But it must not be forgotten that this period of narrow oligarchy and unashamed exploitation was the period of Italian greatness as well. North Italy might even have become a unity like the Netherlands had not this further development been checked by the separatist traditions of feudalism which were still dominant, and by the devastations of the Guelph and Ghibelline wars.

But the growth of capitalist undertaking was not to pass unquestioned. Its arrival aroused fierce resistance among the dependent urban population—the small traders, the artisans and the wage-earners. In the fourteenth century there were risings against the oligarchy in several towns, and for a brief period a more democratic *régime* was

[1] J. L. Sismondi, *Hist. of Itn. Republics*, ed. Boulting, 242 *et seq.*, *also* E. Dixon *op. cit.*, 163–9.
[2] Cunningham, *West. Civilizn.* (Mod. Times), 165.
[3] Sismondi, *op. cit.*, 237, 239.

introduced. In 1371 there was a rising at Siena, which resulted in a magistracy of artisans. In Florence there was a similar revolution in 1378, and power was transferred by it to the Lesser Arts. But below the Lesser Arts was the large class of day-labourers, mostly wage-earners engaged in the wool industry who were known as the *Ciompi*, and these in their turn revolted and attempted to introduce a *régime* of their own. As a rule, however, the rich merchants of the major gilds retained the upper hand. They could rely on the support of the nobility, on their retainers and the feudal cavalry ; and the democratic movements were suppressed.[1] Finally, the rule of the towns passed into the hands of illustrious semi-feudal, semi-burgher families like the Borgias and the Medici. Italian towns were to be the homes of a new learning and of the art of a Titian, a Botticelli and a Michael Angelo. But commercial supremacy was to pass from them, to be the prize instead of the triumphant capitalist enterprise of England and the Netherlands.

[1] Sismondi, *op. cit.*, 443–450, 564 *seq.; also cf.* N. S. B. Gras, *Introdn. to Econ. Hist.*, 147–8.

CHAPTER SIXTEEN

The Transition in England

In English towns the transition to a state of class monopoly was more gradual, and it was not marked by such violent disturbances as greeted the beginnings of capitalist undertaking abroad. In England the export trade was mainly in the hands of foreign merchants until the fourteenth century, and Jews and Lombards were well to the fore as money-lenders to the Crown and nobility and as recipients of royal favour. Accordingly, there was not the same easy opportunity, as there was in Flemish and Lombard towns, for the richer burgesses to prosper rapidly in foreign trade and in money-lending. English merchants could only climb to supremacy in the national market when they had won from the Crown the abolition of the privileges of foreign rivals. But even so, before the end of the fourteenth century there were clear signs of a superior class of burgesses in the towns, possessing important differential advantages and concentrating control of urban administration in their own hands.

As causes of this tendency to class differentiation it is possible to detect several factors. First, there was a natural tendency for the older burgher families who had held land for generations to profit from this original possession and to reap the increment of improved land values. Second, as the town population increased, largely by the influx of villeins from the countryside, the number of persons seeking employment as journeymen and servants tended to increase. A growing number of these were unable, at least for many years, to set up on their own as masters with their household and their shop and so to become freemen of the town. Any difficulties which before had stood in the way of new-comers rising to become masters and traders had their influence enhanced when the competition for a limited number of opportunities was increased. Third, certain traders of the Gild Merchant probably secured certain windfall gains and so were enabled by this new-found wealth to explore fresh opportunities which were not open to the less fortunate among their fellow townsmen.

These factors, however, seem insufficient alone to explain the rise of a defined class cleavage. As influences tending to perpetuate and enhance any existing inequalities of opportunity they might no doubt in the course of time have gathered sufficient strength to constitute those possessing the wider opportunities an upper class. But the change between 1200 and 1400 was sufficiently rapid and striking to call for some further explanation. The growth of the "insignificant peddling traders of the eleventh, twelfth and early thirteenth centuries" into "the important political plutocracy of the fourteenth,"[1] and the creation in embryo of a dependent working class was quite a revolutionary development. The "windfall" gains, which one might expect to have contributed most largely to this development, must have been very much smaller than was the case either in the Netherlands or in Lombardy; and the largest gains accrued to English merchants towards the end of the fourteenth century rather than before that period. Moreover, in the absence of serious restrictions on other townsmen sharing the possibility of such good fortune, one would expect these gains in the long run to have been shared fairly evenly rather than to have been concentrated on a few. Only if the recipients of the windfall subse-

[1] A. Law, "Eng. Nouveaux-Riches in the Fourteenth Century," in *Transactions Ryl. Hist. Socy.*, N.S., IX, 49.

quently entrenched themselves against the competition of their fellows, does this cause seem at all adequate to maintain the magnitude of its supposed effect.[1]

It seems, therefore, to have been two other developments which played the chief *rôle* in the transition of the towns to be the cradles of capitalist undertaking. First of these were certain changes which had the effect of creating a dependent and propertyless class of persons at the bottom of the urban social scale. These took the form of various restrictions which appeared at this period on the supply of new masters—measures which were apparently prompted by the fear felt by existing burgesses at the large influx from the countryside. Quite early the various crafts found means for their own protection in special craft gilds, and these in most cases secured recognition from the authorities of the town. In some cases, as with the weavers, the town authorities seem at first to have been hostile; but a subsequent compromise provided for their recognition at the price of subordination to the mayor. An important advantage which these craft gilds were able to secure was that admission to the freedom of the town should be conditional on the security for the applicant of six reputable men of his craft; and later it was stipulated that the consent of the warden of the craft gild should be obtained. At the same time, no one was allowed to set up as a master craftsman, unless he had obtained the freedom of the city.[2] These provisions in practice gave to the craft gild the right to exercise a veto on new applicants and thereby regulate the competition of new master craftsmen. Although nominally the gilds included all members of a craft, the journeymen not excepted, in practice the voice

[1] In technical terms, the windfall profits would be in the nature of a *quasi-rent*, which in the long run would be distributed and diminished by the competition of new undertakers.

[2] Ashley, *Introd.*, Vol. I, Bk. II, 77.

of the journeymen was not heard at all,[1] and hence it was to be expected that the craft gilds should exercise their power to prevent journeymen from rising to be masters and burgesses. "Before the middle of the fourteenth century there are unmistakable traces of the desire to limit competition by diminishing the influx of new-comers."[2] In 1321 the London weavers were accused of raising heavy entrance fees to those desiring to become masters of their craft; and this practice became fairly common in the course of the century.[3] So great did the practice grow that in 1531 complaints were made that gilds had been charging their apprentices "almost prohibitive fees for membership in the gilds."[4] Mrs Green even goes so far as to say that "when a man had finished his apprenticeship, cunning devices were found for casting him back among the rank and file of hired labour."[5] On the Continent, indeed, applicants were often required to present a costly masterpiece, or to have travelled for five years, provisions from which sons of masters were exempt.[6] In the reign of Henry IV. an Act was passed to limit the apprenticing of youths from the country;[7] and in 1387 in London villeins were prohibited from becoming burgesses, an example which was followed by York and some other towns. Finally, in the fifteenth century restrictions were imposed on the number of apprentices which any master might take, in order "to limit the number of independent masters."[8]

On wage-earners the urban regulations fell with a special

[1] Mrs Green, *Town Life*, Vol. II, 119–120.
[2] Ashley, *op. cit.*, 75; Gretton, *op. cit.*, 69–70.
[3] Ashley, *op. cit.*, 75, 98, 105; Brentano, *loc. cit.*, cxxxviii.
[4] S. Kramer, *Craft Gilds and the Govt.*, 78–9.
[5] Mrs Green, *op. cit.*, 102; *cf.* A. Abram, *Social Eng. in Fifteenth Centy.*, 121.
[6] Brentano, *loc. cit.*, cxxxviii.
[7] G. Unwin, *Industl. Organizn.*, 48; Cunningham, *Growth* (Mod. Times), 36.
[8] Ashley, *op. cit.*, 89, 91–3; *cf. also* Schmoller, *Principes d'Economie Politique*, Vol. II, 494.

heaviness, and the actions of journeymen were under such severe limitations as to place them at a very definite disadvantage to the master craftsmen. Wages were regulated to prevent their rising above a seemly price. Journeymen were forbidden to combine ; and were only allowed to make bargains openly at the market cross, being fined if they stood there more than one day in the week. The will of their master over them was well-nigh absolute, and " rebel and contrarious men " were severely punished.[1]

Second, there are clear indications that at the same time the richer merchants began to form an exclusive body, and to limit the participation of others in wholesale trade. Some of the most prominent of them joined with certain alien merchants in the Merchants of the Staple, and by this shared in a monopoly of the foreign trade in wool. In some cases the Gild Merchant, which had probably in its origin been composed of the majority of burgesses, including craftsmen, tended to become exclusive, and to limit the competition of new craftsmen in their trade privileges.[2] At Shrewsbury in 1363 we find manual workers being excluded from trading wholesale.[3] The Gild of Newcastle excluded anyone having " blue nails," or one who hawked wares in the street.[4] At Coventry the Gild Merchant, which was formed somewhat late, definitely excluded craftsmen and became the governing body of the town.[5] At quite an early date at Winchester, Oxford, Beverley and Marlborough and some other towns a clear distinction was drawn between the freemen of the town, who could trade, and the weavers, who were not freemen of the town and were forbidden to trade ; and at Leicester in the thirteenth century the Gild forbade

[1] Mrs Green, *op. cit.*, 120–1. [2] Ashley, *Introdn*, Bk. I, 80.

[3] Cunningham, Gild Mercht. of Shrewsbury, *Trans. Ryl. Hist. Socy.*, N.S. IX, 103.

[4] Gretton, *op. cit.*, 65.

[5] M. D. Harris, *Life in an Old Eng. Town*, 88.

weavers to sell to any others than burgesses of the town.[1] At Derby, in 1330, there were complaints against the Gild for excluding most of the burgesses by a high entrance fee and for preventing them from selling except to a member of the Gild.[2] In Scotland the Gild Merchant seems quite early to have been a definitely exclusive body—much more so than in England. In the twelfth century dyers, butchers and cobblers were not admitted unless they abjured the exercise of their craft and left it to their servants; and in the thirteenth century fullers and weavers were excluded from it at Aberdeen, Stirling and Perth.[3]

But, as a rule, the growth of a trade monopoly was more complicated than was the case in Continental towns and in Scotland; and in general it does not seem to have been the old Gild Merchant which was the instrument of this monopoly, as Brentano originally suggested. On the contrary, in most towns the Gild Merchant seems to have died at the time when this monopoly began to develop. In the 13th and 14th centuries it lost its original function, and continued, if it did so at all, merely as a name.[4] The monopoly of trade by a specialized class of merchants seems to have been secured by the formation of new "misteries" or mercantile gilds, which secured for themselves exclusive rights to particular branches of trade.[5]

In some cases the old Gild definitely divided into a number of new companies. At Andover there was a tripartition into Drapers, Haberdashers and Leathersellers, and at Devizes into Drapers, Mercers and Leather-

[1] Ashley, *op. cit.*, 83. Ashley suggests that this may have been due to the fact that the weavers were aliens, and points out that the restriction later tended to disappear. Mr Lipson, however, rejects this interpretation. (*Econ. Hist.*, 323–4.)

[2] G. Unwin, *Finance and Trade under Edward III.*, 234.

[3] Gross, *op. cit.*, 213; *cf. also* Cunningham, *Growth* (Middle Ages), 348.

[4] Gross, *op. cit.*, 116; Kramer, *op. cit.*, 24; Cunningham, *op. cit.*, 225; Usher, *op. cit.*, 181; Kramer in *Eng. Hist. Review*, xxiii, 250–1.

[5] *Cf.* Gross, *op. cit.*, 127–9; Gretton, *op. cit.*, 67; Ashley in Pubcns. Am. Econ. Assocn. (1887), 36–7, 58–9.

sellers.[1] More commonly there was a division into a number of craft gilds, some having exclusive rights to handicrafts, others devoting themselves to trade, as, for instance, the Reading Gild, which transferred its function to five companies.[2] With great frequency general companies of merchants appeared in the towns of the fourteenth century. In London the first of what were known as the Livery Companies secured charters in the reign of Edward III., thereby receiving a monopoly of trade in the particular goods in which they dealt. These were mostly companies composed exclusively of merchants, such as the mercers, goldsmiths, grocers, drapers ; but even those which included craftsmen were usually dominated by the richer trading elements ;[3] and the result of their incorporation was much outcry from London citizens, who claimed that prices had risen by one-third.[4] The result was that in the fourteenth century " in London and provincial towns a definite class of merchants was differentiating themselves from the craftsmen."[5] As Mr R. H. Gretton has tersely put it, the urban traders, " having cut the trench that was to assert their position against the landowner, turned their spades to the rear and cut another trench there."[6]

At the same time as this was happening, political power was passing into the hands of an oligarchy in the towns. Even in the early democratic days it had been customary to select the richer and more influential burgesses to the committee of twelve which conducted the administration ; but these were elected, and governed at least by the consent of the other burgesses. Gradually, however, " an aristocratic select body usurped the place

[1] Gross, *op. cit.*, 118–120. [2] Gretton, *loc. cit.*
[3] Lipson, *op. cit.*, 379–381 ; *also* W. C. Hazlitt, *Livery Coys. of London*, 68.
[4] Lipson, *op. cit.*, 383–4. [5] *Ibid.*, 385. [6] *Op. cit.*, 72.

of the democratic common council of the citizens."[1] At Beverley and York an oligarchy had arisen by the fourteenth century.[2] At Winchester there were complaints "concerning oppressions inflicted by the twenty-four principal citizens," who apparently co-opted the officials.[3] Still earlier, in the thirteenth century, it was said at Gloucester and Oxford that the *divites et potentes* among the burgesses were levying tallages on their own account and were unjustly taxing the poor for the benefit of the rich. At Lynn and at Shrewsbury one hears of a rule of twelve; and a distinction of status in towns between *potentiores, mediocres, inferiores* becomes common, the distinction probably corresponding to that between merchants, the major craftsmen and small traders, and the inferior craftsmen.[4] In London there was quite a clearly drawn distinction between the twelve "greater" companies and about fifty or more lesser craft companies; and Ashley has expressed the opinion that the former enjoyed a supremacy similar to that of the *Arti Maggiori* in Florence, the *Six Corps de Métier* in Paris and the *Herrenzünfte* in Basel.[5]

Now, it does not necessarily follow that the oligarchy was in all cases composed of the merchants of the town, nor that the political power was used by the *divites et potentes* to acquire a commercial monopoly. It may have been one group of merchants, whose rule was resented by other merchants as well as by the craftsmen.[6] In some cases the oligarchy seems to have been of old aristocratic landowning elements in the town, not of new progressive commercial men. But it seems clear that the

[1] Colby in *Eng. Hist. Review*, XX, 643; *cf.* Mrs Green, *op. cit.*, 249 Ashley, *Introdn.*, Bk. II, 26, 48.

[2] *V.C.H. Yorks*, 3, 442, 445.

[3] Colby, *op. cit.*, 648.

[4] Ashley, *op. cit.*, 133–4; *cf. also* Hazlitt, *op. cit.*, 69.

[5] *Ibid.*, 644–5, 647–651.

[6] In Beverley it was the drapers who, together with the tailors, butchers and shoemakers, led the insurrection in 1380 against the ruling clique. (*V.C.H. Yorks*, 3, 443.)

change meant that the regulation of trade by the town no longer gave protection to town craftsmen against the seller of his raw material and the wholesale purchaser of his product. It actually placed restrictions on him, from which wholesale merchants were exempt.[1] And there seem to be sufficient cases of the town oligarchy excluding craftsmen from commercial privileges to make one regard it as a not inconsiderable factor in the establishment of class monopoly. At Yarmouth, for instance, in 1376 the "poor commons" petitioned that they might be allowed freely to buy and sell their wares.[2] In the reign of Edward I. at Grimsby the ruling burgesses would not "suffer the poor men of Grimsby to participate with them in the matter of purchase and sale according to the liberties granted to them."[3] In 1317 at Bristol there was trouble because fourteen *de majoribus* had secured *praerogativam* in connection with the seaport and the market.[4] In the majority of cases the persons who controlled the administration seem to have been the same upper class in the towns out of which the prosperous merchants of the next century sprang. "No man of the people could hope for office. The 'rank of Mayor' and the 'rank of Sheriff' were recognized things. So was the rank of 'good and sufficient men.'"[5] It was Drapers and Mercers who dominated the administration at Coventry, and Drapers at Shrewsbury. At York it was the Mercers who by 1420 had captured the government of the city.[6] In London the Mayor—and often the alderman and sheriff as well—was usually a Mercer or a Vintner or a Grocer or a Goldsmith or a Draper.[7]

By the end of the fourteenth century there seems little

[1] *E.g.*, the prices of the craftsmen's wares were often fixed. (Salzmann, *Indys. in the Middle Ages*, 201–210.)
[2] Lipson, *op. cit.*, 321. [3] Colby, *op. cit.*, 645. [4] *Ibid.*, 650.
[5] Mrs Green, *op. cit.*, 249.
[6] M. Sellers, *York Mercers and Mercht. Adventurers* (Publics. of Surtees Socy.) xiii.
[7] *Cf.* A. H. Johnson, *op. cit.*, 52.

doubt that the domination of the towns by merchants, who monopolized trade and were often united in a single merchant company, was complete. "The merchants' organization or gildry contrived to monopolize the functions of government to the exclusion of the crafts."[1] At Newcastle in 1480 the Merchant Adventurers excluded craftsmen from trade, and similarly at Hull. At Exeter the restriction applied to "adventuring beyond the seas"; and against this the Tailors' Gild fought vigorously. Similar monopolies were to be found at Bristol and Chester, where "men of manuell arte" and retail tradesmen were excluded from wholesale trade.[2] But even where the limitation was not as clear as this, there was nothing approaching free trade. The very fact that special trading gilds, like the Mercers, Grocers and Drapers, were founded shows that there were already certain branches of profitable trade monopolized by groups of merchants, even if in other lines craftsmen were free to traffic in their wares. The principle of "one man, one trade," laid down by the Act of 1363, and apparently intended by the feudal interests to restrain the engrossing tendencies of the Grocers, was soon invoked by the mercantile crafts like the Drapers "against the independence of the several handicrafts."[3] The King, in fact, in the following year interpreted the Act by bestowing charters on companies of wealthy wholesalers, like the Vintners, Drapers and Fishmongers, giving them thereby a monopoly of their several callings.[4]

But there was trouble in store for the mercantile oligarchy, when the larger craftsmen of the more prominent craft gilds grew rich. It then happened that the latter desired to leave more and more of the work of actual production to hired servants, and themselves to adventure

[1] Unwin, *Industl. Organizn.*, 73–4.
[2] S. Kramer, in *Eng. Hist. Review*, XXIII, 28–30.
[3] Unwin, *Finance and Trade under Edw. III.*, 249–250.
[4] *Ibid.*, 247.

their wealth in trade. In attempting this they came hard against the monopoly of the merchants; and this seems to have been the chief cause of the conflicts between craft gilds and town governments which in many cases occurred. The standard of revolt against the oligarchy was usually raised by one or two of the more powerful crafts; and where no particular interest was involved the citizens seem to have had little aspiration after the worries of democracy.[1] At Exeter, for instance, the master tailors of the Tailors' Gild, grown rich and influential by the end of the fourteenth century, wished, as one would expect, to become merchant tailors selling to foreign traders. They accordingly followed the fashion and purchased a charter from the Crown. This the Mayor resented in no mild fashion and proceeded to expel the tailors from the freedom of the city. Finally, a compromise was effected under which the tailors shared the spoils of power, as they desired, "and the sorrows of defeat were left to the populace at large."[2] This kind of compromise seems to have been fairly general in the fifteenth and sixteenth centuries, the mercantile oligarchy maintaining its position by admitting the richer craft gilds to share in their privileges and power.

The meaning of this change to the *régime* of the mercantile companies is typified no better, perhaps, than in the disuse into which the old urban regulation against regrating and forestalling fell. The rich members of one town frequently became Gild members of other towns, and so, being exempted from the special provisions against strangers, were able to carry on wholesale trade on a considerable scale. At the same time the Assizes became obsolete, and rich "bakers and victuallers who rose to municipal offices turned the assize of bread and

[1] Colby, *loc. cit.*, 645; *cf.* Ashley: "The old jealousy between craft and commune disappeared when the leading men of the gilds came to exercise influence in the government of the commune."

[2] Mrs Green, *op. cit.*, 173–181.

the inspection of cooking-houses into an idle tale."[1] The change, in fact, actually gave advantage to the rich wholesaler—to the regrater and engrosser on a large scale. For, it became common for the fine which the regulations had devised as a penal measure against abuse to be regarded merely as a licence-duty or fee for the continuance of the practice.[2] The rich merchant who practised the trade on a large scale could well afford to pay the fee, whereas the poorer sinner could not.

From this newly-developed class differentiation we begin to see capitalist undertaking springing well-nigh full-grown. As in Flanders, we see it appearing first in the cloth industry; for, the trade in wool and cloth needed a wide market, and it was here that monopoly was most ubiquitous. This trade was to be the mainstay of English commerce for centuries, and those undertakers who had an eye for gain swooped down upon it early and fastened it with their talons. Quite developed forms of undertaking developed in the fifteenth century. The "putting-out" system had appeared in the latter half of the fourteenth century, under which "the clothier began to buy wool wholesale, delivering it by weight to the spinners, whom he paid for their work upon it, receiving back from them by weight a quantity of yarn, which he then handed on to the weaver from whom he received cloth." In some cases, even, the clothier owned the weavers' looms—a system which was quite exceptional until much later in the development of undertaking; and when this occurred the independent craftsman entirely disappeared and "the weaver sank to the status of the hired man."[3] Further, there were actually a few cases of the factory system, the best known of which was the case of the famous John Winchcomb, popularly known as Jack of Newbury. Being the son of a draper, he had been apprenticed to a

[1] Mrs Green, *op. cit.*, 49. [2] Gretton, *op. cit.*, 53.
[3] Gretton, *op. cit.*, 64–5.

rich clothier and then, marrying his master's widow, had come into sudden prosperity.[1] In his case we are fortunate to possess a graceful, if not entirely reliable, description of his workshops by Deloney, recounting in the now well-known lines how :—

> " Within one room being large and long
> There stood 200 looms full strong
> Two hundred men the truth was so
> Wrought in their looms all in a row."

To this account, poetically rapturous of the " two hundred maydens,"

> " In peticoats of stammel red
> And milk-white kerchers on the head."

with its account of the dye-house and the fulling-mill attached to the establishment, this early undertaker owes most of his immortality. In the same town we hear also of Thomas Dolman, who had a kind of factory, and later from its profits built for himself Shaw House, costing £10,000. At Bristol there was one Thomas Blanket, whose relatives were town magistrates and members of Parliament ; and later, in the 16th century, William Stumpe rented Osney Abbey in Oxfordshire and undertook to employ 2,000 workmen. To avoid town and gild regulations these clothiers began to make a custom of employing small craftsmen in villages, thereby instituting what has been called the Domestic System. In these cases the finishing was often done, at any rate in the west country, in a large mill owned by the clothier.[2] In Essex and Suffolk this industry especially thrived ; and it is here in the country where the famous Springs of Lavenham grew rich, and where worthy Thomas Paycocke of Coggeshall had £500 spent upon his funeral ceremonies

[1] Johnson, *op. cit.*, Vol. II, 48 ; *V.C.H. Berks*, 2, 388.
[2] *V.C.H. Glouc.*, 2, 158.

and more upon a chantry in the Abbey,[1] that we hear the weavers' complaint in 1539 that "the rich men, the clothiers, be concluded and agreed among themselves to hold and pay one price for weaving cloths."[2]

In other spheres of industry in the towns at this time we find some crafts which were excluded from trading in their raw material or their products becoming dependent on other crafts which had secured a monopoly of trade. As early as 1327 there was a riot "in Chepe and in the streets of Cripplegate" of joiners, painters and lorimers, who said that the saddlers had "ordained and established thereunto among themselves made an oath" that none of the former should trade in their merchandise. In a similar way, about 1400 the cutlers became employers of the bladesmiths and sheathers, and in 1415 the former put their monopoly in legal form by securing incorporation.[3] In 1364 the Drapers' Company secured incorporation, which gave them the monopoly of wholesale trade in cloth, and by the end of the century placed the fullers and shearmen in dependence on them.[4]

The Battle of Bosworth was not only the close of a senseless feudal struggle, it also sounded the knell of the last remains of the old epoch. The coronation bells of the first Tudor were to ring upon the triumph of a new class and upon a new way of organizing social and economic life. A threefold division in society, which did not follow the lines of feudal homage, was established by 1400 and fully matured a century later; and on the basis of this division the new mercantile society in the full freshness of youthful vigour was to stretch its limbs and strain

[1] Eileen Power, *Mediæval People*, 168.

[2] Lipson, *op. cit.*, 417; *cf. also* Lipson, *Hist. of Wool and Worsted Indys.*, 44–52, and Salzmann, *Indys. in the Middle Ages*, 157–9. These clothiers, however, were apparently divided into rich clothiers and poor clothiers, the former buying direct from the wool grower, the latter from the wool stapler.

[3] Unwin, *op. cit.*, 22–5.

[4] Ashley in Pubcns. Am. Econ. Assocn. (1887), 63.

forward towards the eastern and the western sun. Towering at the summit were the rich export merchants —of the Staple and the Merchant Adventurers—the Mercers, the Drapers, the Grocers, the Goldsmiths and so forth. These were money-lenders to the Crown, farmers of the royal revenues, and contractors to his household and his army. They dominated local politics, their voice was soon to be the voice of Parliament, and they were successfully challenging the effete and impoverished nobility in their claim to be the first gentlemen of the land. Below them in the second rank were the local traders, small clothiers of provincial towns, and the independent master craftsmen who controlled the craft gilds and in the course of the sixteenth century gained some share in the government of the towns. Their interests were local: they harped back to mediæval standards and to the time when the market of the town was supreme. Finally, at the bottom of the social scale were the small craftsmen, who were dependent on merchant undertakers, as were the weavers on the clothiers; and with them the journeymen whom they employed or who worked for the independent master craftsmen.

But these divisions were not rigid, though at any one time they were clearly-marked enough. As the sixteenth century advanced, more and more of the poorer craftsmen lost their independence and fell into the dependent class. Between the local interests and the upper rank of national merchants there was passage from below. Clothiers like Jack of Newbury, Blanket and Stumpe were halfway houses; and rich craftsmen and local traders tended from time to time to rise into the privileged ranks of export merchants. This upper class was fast stealing the thunder of its feudal rivals. It was buying country estates from impoverished nobility, and it was donning the speech and manners of country gentlemen. Into London society and court circles it was insinuating itself with expert hand; and titled aristocrats were only too glad to marry their daughters into such well-provided families, or to apprentice superfluous sons to their lucrative trade. In the 16th century it was to receive honours, position and high office, and to become the new ruling aristocracy of Tudor England.

CHAPTER SEVENTEEN

THE NATIONAL MARKET AND MERCANTILISM

THE growth of capitalist enterprise in England, requiring to break the narrow bounds of the town economy and to be supreme in the wider national market, had for some time much to contend against. Prior to the fourteenth century England's position in the trade of the world was a poor one. From nature she was gifted with certain advantages; for, she grew the wool that was so much needed for the staple manufacture of mediæval times, and the wool was of a quality which caused it to be much sought after. But in many other respects England was in a weak position. Her Crown and her nobility were poor as compared with the splendour of Continental palaces and the treasures which lay in foreign nobles' coffers, and they had to resort to borrowing even at the cost of high interest or burdensome concessions. At the same time an English merchant class was as yet immature. Not till the thirteenth century had it much thought beyond the horizon of a local town. Not until the fourteenth century did it catch the glamour of the prospects of foreign trade. The result was that in the meanwhile important privileges were granted to groups of foreign merchants, such as the Lombards and the merchants of the Steelyard; and possessed of these advantages, such merchants could secure profit from trade in English wool which English merchants were as yet unable to enjoy.

The result of this was to make England a virtual colonial area, open to the exploitation of foreign undertakers, in a dependent position similar to that which countries like China, India and Turkey suffer at the present day. The English buyer, confined to a local market, was at a disadvantage in buying from a stranger merchant. He had few alternative sources within his reach and he was little informed as to conditions of sale elsewhere. The English seller of wool or local produce had, again, few chances of selling his wares, and he had little knowledge of the possibility of selling at higher prices if he were to roam afield for buyers himself. His only likelihood of securing a handsome price was if the rivalry of strangers for his wares grew so keen that he could play one off against the other to make them bid at a better price. But this was unlikely, since the number of foreign merchants was very narrowly limited, and those that trafficked within the realm were closely united in League and Hanse. In consequence, the demand-price of English buyers for foreign goods tended to be relatively high, and the supply-price of their goods for export tended to be relatively low.[1]

It was very largely for this reason that the rise of burgher monopoly played in its time such a constructive *rôle* in the fostering of enterprise in England. It enabled the townsmen by collective action to redress the disadvantage under which they laboured ; whereas without it they would have been unlikely to develop above the level of mere pedlars and servant artisans. Devoid of this protection they would hardly have been able to amass sufficient capital to make possible the financing of new methods or the bearing of the uncertainty of new adventures. Still less likelihood would there have been of the urban communities developing a class of undertakers imbued with the capitalist spirit and fired with the lust for profit and for power. As it was, beneath the fostering care of gild and market regulations the prosperity of the new town communities was able to develop, and

[1] *Cf.* above, pp. 106–10.

the class division which was the basis of capitalist undertaking was enabled to arise. And in the direct descent of the Gild Merchant came the mercantile craft gild and the foreign adventuring companies, which were to challenge and then supplant the monopolies which a foreign Hanse had previously enjoyed.

The prelude to the establishment of an English merchant class as supreme in a national market was, therefore, the dethronement of the foreign merchants from their position of privilege and advantage. The first breath of revolt on a national scale came, indeed, as early as the mid-thirteenth century, when Simon de Montfort used as a stick against the Crown the complaint that wool was being exported to the benefit of the Flanders wool industry, instead of giving employment and riches in an English weaving industry at home. Whether de Montfort was really imbued with a spirit of nationalism before its time or whether he used the complaint as an *argumentum ad homines* for the English merchants who were beginning to desire to share the profits of the wool trade themselves, we can scarcely say. All that immediately happened was that certain English merchants joined with foreigners in the Merchants of the Staple, and thereby shared in the profits of the wool-trade monopoly. The Crown still continued to be generous—if generosity it can be called—to the merchants of the Hanse. The crusading Richard had set the precedent of generosity, when, having had the misfortune to be cast into a German dungeon, he was glad to barter trade privileges for Hanse merchants against release from a discomforting and undignified position.[1] His successors did not suffer the bargaining disadvantages of a dungeon ; but they suffered what was nearly as bad—the high " time-preference " which comes from an indecently empty treasury. Consequently, the generosity continued. Some of the feudal nobles, too,

[1] I. D. Colvin, *The Germans in Engd.*, 13–17.

were a little inclined to welcome the advent of strangers as a relief to the overbearing insolence of the monopolistic burgesses; and apparently this attitude of welcome was sometimes shared even by pious burgess officials. For, the generosity was not altogether one-sided, and we find that the alderman who was chosen from among the London aldermen to judge in disputes between citizens and German merchants received annually from the Hanse a gentle present of fifteen gold nobles, "delicately wrapped up in a pair of gloves."[1] In fact, a clear witness to the extent to which foreign merchants were in possession of English foreign trade, even as late as Edward IV., is given by the constitution of the commercial courts in the wool staple towns. These courts, whose purpose was to settle disputes between buyers and sellers, consisted of two English merchants, two Germans and two Lombards.[2]

In the reign of Edward III., however, a national movement in opposition to the monopoly of foreign trade by the Hanse and the Merchants of the Staple began to show itself. This was the expression of the growing power of the richer merchants of the towns who were "chiefly engaged as acting middlemen between Englishmen and foreigners" in the trade in wool.[3] These were not as yet, apparently, burning with the desire to share in the foreign trade in wool—a demand which at the moment would have been scarcely "practical politics." What they did desire, however, was to be able to sell their wool under conditions of free competition, instead of being faced with the inexorable demand-price of a monopoly. This desire they shared with the wool-producers—mainly feudal landowners—who hoped with a free competition of wool buyers to secure a better price for their wool.[4] The latter would have liked the abolition of Staples altogether;

[1] *Ibid.*, 51. [2] *Ibid.*, 55.
[3] G. Unwin, *Finance and Trade under Edw. III*, 241.
[4] *Ibid.*, XXIII.

the former wanted to replace the wool Staple at Bruges by several Staples in English home towns. To these latter they could have freer access, they might profit from their local connections and control of the market, and a larger number of foreign wool buyers might be attracted there as direct customers for the English sellers, instead of, as formerly, to Bruges as customers of the Merchants of the Staple. Representatives of the shires and of the boroughs united, therefore, in the Parliament of Edward III. in a Free Trade policy to demand the abolition of the wool staple at Bruges. The King, however, still needed money, and his need was increased by the costliness of a French war. The Merchants of the Staple had become farmers of the wool tax after the financial failure of the Lombard bankers, and on them the King had to rely for the bulk of his revenue. He was beginning, it is true, to solicit loans from English merchants, especially those of London, but the Crown still depended very largely on the goodwill of foreigners. In 1339 the King had to pawn his crowns to Cologne and Trier and to borrow 54,000 florins from three burghers of Mechlin; and after a certain yule-tide visit to Antwerp he was forced to leave his Queen and his child as pledges for a debt of £30,000, of which he was gracefully reminded by the burghers when he expressed his intention of departure.[1]

Nor were his successors in better plight. Henry V., after Agincourt, had to send an embassy to the German Hanse to renew their former privileges. Henry VI. apparently owed "nineteen thousand, two hundred and seventy-four nobles and a half" to the Hanse money-lenders, and the pressure of his creditors induced him to grant them the right of appeal from burgess courts in England to special judges appointed by the King.[2] Though Edward IV. on his accession had limited the

[1] Colvin, *op. cit.*, 59. [2] *Ibid.*, 99–100.

export trade in wool to Englishmen and had given protection to English cloth interests, and though he had won the favour and the credit of the burgesses by bestowing kisses on the cheeks of their buxom wives on ceremonial occasions, financial distress seems to have induced him in 1465 to accept very graciously from the Hanse "a present of a large sum of money for the renewal of their charter."[1]

But in the meanwhile those English merchants who had ambitions in the direction of foreign trade started to engage in the lucrative traffic in English cloth. The first-comers in this new line of business seem generally to have been Mercers, and in the fourteenth century it was common, as in the case of York, for master mercers to have factors in Bruges, Antwerp, Bergen-op-Zoom and Middleburg.[2] In fact, it was out of the London Mercers' Company that there sprang the Merchant Adventurers, and the latter kept its minutes in the same book as the Mercers' Company down to 1526. First known in 1358 as the Fraternity of St. Thomas à Becket, this new company managed to secure privileges from the Count of Flanders, and established Antwerp as the foreign centre of its cloth trade in rivalry to the wool Staple at Bruges. The result of this challenge was a bitter warfare between the English Adventurers and the Hanse for control of the trade of Flanders and of the North Sea. English ships were attacked and captured; the English settlement at Bergen was sacked; and the English merchants retorted in kind whenever they could. In the reign of Henry VIII. complaint was made that at Dantzig English merchants were treated "worse than any other foreigners, the Jews only excepted." They were ill-treated and scorned and were only allowed to sell one day a week and then only to burgesses, and they were forbidden to trade

[1] Quoted from Anderson by Colvin, *op. cit.*, 107–8.
[2] M. Sellers, *York Mercers and Mercht. Adventurers*, xli.

in the other towns of Prussia.[1] In 1406 this Company of Merchant Adventurers, composed " of a great number of wealthy merchants of divers great cities and maritime towns in England, including London, York, Norwich, Exeter, Ipswich, Newcastle, Hull," received its first charter from the Crown, which recognized its status as the great English cloth-exporting interest—as " *mercatores in partibus Hollandie, Selandie, Brabantie et Flandrie*."[2] The English monopoly of cloth export had thrown down the gauntlet before the wool export monopolies of the Merchants of the Staple and the Merchants of the Steelyard.

But the Merchant Adventurers were not alone in their struggle. United with them in their opposition to the foreigners were the Drapers and the capitalist clothiers interested in the manufacture, if not in the export, of cloth. United with them, too, were the various other mercantile interests of London who regarded the Steelyard as a grave breach in the monopoly of the merchant-citizens of the city. United with them was the whole of that new upper class of merchants who had become the usurers to the feudal nobility after the expulsion of the Jews, and now wished to grow fat on the profits of lending to the Crown, and farming his customs, and contracting to supply his army and his household.

As a result, by the beginning of the Tudor era a vigorous national movement had developed with its roots in the new merchant class and its pioneers in the North Sea under the flag of the Merchant Adventurers. The feudal class had been decimated and weakened by the Wars of

[1] Colvin, *op. cit.*, 64 *seq.*, 156, 162 ; *cf. also* C. Walford, *Outline Hist. of Hanse League*, *Ryl. Hist. Socy. Trans.*, IX (1881), 128.

[2] Cawston and Keane, *Early Chartered Companies*, 17–22, 27–28. Later the Merchant Adventurers became exclusive and raised its entrance fee to a high figure. It also used bribery extensively, in 1623, for instance, presenting 200 gold pieces to the Lord Treasurer and presents also to the Duke of Buckingham, Archbishop of Canterbury, Lord Keeper, Lord President and the Secretaries of State.

the Roses ; the flood-tide of Reformation and Renaissance doctrines had overwhelmed the erstwhile power of the Church. Already by the end of the fourteenth century the new class had begun to establish its own centres of education, independent of feudal influence, in the shape of the grammar schools which were founded by rising merchants and controlled by the local gild or the Mayor ;[1] and as a result by the Tudor period the new class had its own *intelligentsia*, which had served its apprenticeship as lawyers and secretaries, and was now equipped to be advisers and administrators to the new Tudor monarchy.[2] Moreover, the sons of the nobility had themselves become apprenticed to trade, and had lost their feudal habits in the new burgess life of the towns. Said Sir Edwin Sandys in the reign of Elizabeth : " What else shall become of gentlemen's younger sons, who cannot live by arms, where there is no war, save merchandise ? " Consequently, the new ministers and officials whom the Tudors gathered about them were definitely men of the new age. Thomas Cromwell, a lawyer, and Wolsey, Burleigh and Gresham, a mercer, were all men with new and progressive ideas, and they were nationalist in policy and enemies of the Hanse. In the reign of Henry VIII. " a riot against the foreigners had almost become an annual May-day festival."[3] Protestant clergy in London preached fiery sermons against them ; petitions were signed for their removal. On one occasion the King had actually to send troops and guns from the Tower to quell an anti-foreign disturbance, and apologies had to be submitted to the Hanse on behalf of the Crown. The Duke of Northumberland and Edward VI. both leaned upon the English merchants, and in 1551 allowed the Hanse privileges to be destroyed as the outcome of a lawsuit before the Mayor of London and a jury of Merchant Adventurers, instigated very largely, it seems, by the scheming Gresham in

[1] Gretton, *op. cit.*, 59. [2] *Ibid.*, 101, 105–6. [3] Colvin, *op. cit.*, 150.

alliance with Northumberland. The next year, rather significantly, three hundred of the chief Merchant Adventurers made a loan to the King of £40,000.[1]

After this legal victory the English merchants had only to consolidate their position. The adventure, headed by Cabot of Bristol, to find the North-West passage, and the overtures to secure the friendship of the Tsar, were apparently aimed to secure the Hanse trade of the Baltic and North-East Europe; and the subsequent voyages into the Indies were all part of the grandiose conception of national power. Queen Mary showed signs of restoring to the Hanse some of the privileges they had lost;[2] and the general tenor of her ways was quite contrary to the new spirit that was abroad. But in Elizabeth the English merchants had a sovereign after their own hearts; for, through her mother, the ill-fated Anne Boleyn, she had the blood of a family of Merchant Adventurers in her veins. In her reign the new nationalism found its halcyon epoch;[3] and English history books and English literature, with their idyllic portraits of the time, have given her gratitude for it ever since. For, who of us is there that does not cherish some fragrant picture of this age of the maypole on the village green, of the strolling players, of Shakespeare and Marlowe and Spenser, of Raleigh and Drake and the stalwart laughing "merrie men" of Devon who left their bowls and sailed from Plymouth Hoe to chase the Spanish galleons from the English Channel?

The merchant class during its rise to power had endeavoured to dominate the towns to ensure their rights

[1] Colvin, *op. cit.*, 158–174.

[2] *Cf.* Cunningham, *Growth* (Mod. Times), 14.

[3] *Cf.* Cunningham, "The reign of Elizabeth, when Burghley came into power, marks a great turning-point in the economic history of England; since this was the beginning of the attempt to treat the whole realm as a unit for economic purposes, and to organize and to stimulate the economic activity of the nation." (*Progress of Capm. in Engd.*, 79.) Cunningham suggests that this change was due to the fact that the Crown now relied on revenue from public taxation instead of from the feudal estates of the Crown.

in wholesale and foreign trade. They had managed to limit the competition of local traders who might have forced an intrusion on their gains, and they placed the craftsmen in a subject position, so that the English cloth and other wares in which they traded should not be too greatly enhanced in price for them to buy. Gradually, however, they had had to yield ground a little. There had been struggles in the towns, as formerly at York, London, Newcastle and Coventry in 1364, often ending in sanguinary riots.[1] The power of the town government had been challenged as it had been in Exeter in 1476–7; and as a result some of the rising handicraft gilds, such as the Tailors and some of the local traders, such as the Haberdashers, had to be admitted to a share in the town government and the monopoly of wholesale trade. Now, however, the merchant class could afford to ignore the towns and to leave them to the rule of a small oligarchy of dominant local interests. For, their interest in wholesale and foreign trade was now carefully safeguarded by national charters of incorporation of their several companies. They were now interested primarily in the whole nation as a market, and particularly London, in relation to markets abroad. Hence they would have nothing positive to gain by controlling the trade of this or that locality. If the regulations of the town conflicted with the interests of the national market, as at times the exclusive localism of the retail trader or craftsman would cause them to do, then a convenient remedy was to hand in the authority of Parliament and the newly-created central administration under the Crown. In relation to handicrafts, it was quite easy to circumvent town regulations, as the capitalist clothier found when he inaugurated the domestic system by employing numerous small master craftsmen in the villages, often to the detriment of urban interests.[2] Accordingly, we find those towns which played

[1] G. Unwin, *op. cit.*, 252. [2] Unwin, *Industl. Organizatn.*, 85–6.

no part in the foreign trade or in the new national industry tending to cease their climb to fame and prosperity and even in some cases to decline ; and municipal government fairly generally continued up to 1832 in the hands of small oligarchies of rich local retailers and prosperous master craftsmen, conservative and tradition-loving and seldom extending their vision beyond the boundaries of their home town.[1]

At the same time it became common during the Tudor period for the Crown and Parliament to extend their control over the economic life of the towns; and Henry VII. inaugurated the policy of bringing the craft gilds under the jurisdiction of the Chancellor and the Justices of the Assizes, in place of the former system whereby the control of the gilds was left in the hands of the Mayor.[2] These Justices were given the power to fix maximum prices for the wares of local gilds in cases where the prices charged were deemed to be extortionate ;[3] and there followed in the sixteenth century a series of legislative enactments with regard to local trade and industry, which apparently had as its object, and certainly had as its result, the subordination of local interests to those of the national market as a whole.

But although the new merchant class tended to favour free trade within the borders of the nation and wished to rid themselves of local protective restriction, they did not champion free trade with their customers and competitors overseas, any more than they were hostile to monopoly when the privileges in question were their own treasured charters. The charters of incorporation, obtained first

[1] Unwin, *op. cit.*, 73–4. In some cases, however, more progressive local drapers apparently became clothiers and sought to employ the craftsmen of the town and surrounding country in rivalry with the London clothier. (See below, p. 300)

[2] S. Kramer, *Eng. Craft Gilds and the Govt.*, 62–3, 82. For this centralizing tendency, which was perfected by Wolsey, *cf.* Mrs. Green *op cit.*, Vol. II, 446 *seq.* ; Cunningham, *Growth* (Mod. Times, I), 16.

[3] Kramer, *op. cit.*, 71.

by the Merchant Adventurers and then by the companies such as the Eastland, the Russia, and the Levant Companies, which followed on their heels, gave them the right to exclude " interlopers " of their own country from the trade. But this safeguard was not hole-proof if they could not protect themselves from foreign rivals as well; and, in addition, they were inclined to dislike the importation of goods into England by foreigners in competition with wares which the English merchant had to sell. The new national policy, therefore, did not confine itself to the abolition of England's dependence on foreign money-lenders and merchants, or to the mere creation of a unified national market. It expanded into a general policy of foreign trade and foreign politics. What at first was a defensive nationalism grew to maturity as a vigorous offensive nationalism, scheming to promote the interests of English merchants overseas. The closing of the Steelyard in 1598 only signalized the victory of the former to raise the curtain on the second and more aggressive phase. Elizabeth, whose reign saw the close of one and the commencement of the other, has always had virtue attributed to her by admiring historians precisely because she gave the whole support of her majesty and of the state to the ambitious schemes of a Drake, a Raleigh, a Hawkins, a Frobisher, the pioneers of English merchant enterprise, whereas earlier monarchs had surveyed them with a frown and dismissed them with a gesture of disdain. It did not matter to her that they embroiled her in war with Spain, that they entrapped negroes in Africa and made them slaves—" herded them in the foul darkness of ill-built holds, the rate of mortality passing belief "[1]—that they plundered peaceful Spanish argosies and indulged in other barbarous and unchristian practices. She saw beyond all that to the fact that they were forging paths for the future of English maritime enterprise. After all,

[1] Egerton, *Short Hist. of Brit. Colonial Policy*, 111.

as Sombart has remarked,[1] it is exceedingly hard to distinguish the last pirate and the first undertaker as persons separate and distinct.

With the embassy of John Mildenhall to the Great Moghul in 1600 on behalf of the East India Company this new policy of national power passed from pioneering to a stage of steady achievement ; and in this new policy we can see a very fair replica of the policy of urban monopoly of the twelfth, thirteenth and fourteenth centuries. It was more complex and on a grander scale ; it was devised by a class and the major benefits of it went to a class ; but on the whole it was the same. It was a policy of monopoly and of advantage ; and what their ancestors of the thirteenth century had learned at the town market cross, the new aristocrats of the seventeenth century were adapting amid new horizons on the ocean trade routes of the world.[2] They desired the markets available to themselves abroad to be as wide and as favourable as they could be. They wished the markets at home, in which they bought and in which they sold the products of other lands, to be as free from the competition of other buyers and other sellers as protective enactments could devise. But markets abroad were not expansive for themselves, unless they were protected from intruding competitors ; and accordingly the merchants sought from the State charters which should give them exclusive rights to trade within a certain prescribed area. All other rivals would then be illegal interlopers, who could be placed in irons and shipped home to be prosecuted and punished. If some foreign company had obtained privileges from its

[1] *Quintessence*, 67–73. Voyages of discovery "were often nothing more than well-organized raiding expeditions to plunder lands beyond the sea."

[2] *Cf.* "Mercantilism was the policy of the town writ large in the affairs of the State. . . . People in the metropolis and in the towns of the hinterland were already familiar with a similar policy under the old *régime* of town economy." (N. S. B. Gras, *Introd. to Econ. Hist.*, 201–2.)

own State which caused a clash of interests, then the matter was graver. It usually meant war to the death; and each company, in defending its own position, expected as a duty that it would be aided by all the forces of the Crown. To avoid this intrusion of foreign interests the habit of colonization became popular, in order thereby to secure exclusive political control over the territory; and in those cases warfare between States ceased to be purely matters of commerce and became struggles to acquire or to maintain the territories of the State overseas. These colonies, under proper jurisdiction, were valuable commercial acquisitions to the merchants. It was customary to regard them as dependent territories. No foreigner could sell to them anything that British merchants wished to market, nor to compete as buyers in the raw material and native produce which the English merchants wished to ship to England.

This system of mercantile policy, to which, by a slight broadening of its common usage, the term "mercantilism" can be given, in so far as it was successful, increased considerably the position of advantage in which the merchant class had been placed. This class was now strongly entrenched between two markets, in both of which it had a large advantage. On the one side was the home craftsman and local trader, whose supply-price was relatively low, because, apart from local markets, they had few alternative opportunities of sale. On the other side of the merchant was the colonial market, in which the competition of other sellers and other buyers was rigidly limited, and where, in consequence, the supply-price of colonial sellers was relatively low and their demand-price for the wares of English merchants was relatively high. Not infrequently, of course, the merchants also gained by methods which seriously overstepped the fairly elastic limits of legitimate commercial dealings, and Dr. Marshall has remarked that "silver and sugar seldom came to Europe without a stain of blood."[1] These extremer measures, however, can, perhaps, be regarded as incidental rather than essential features of colonialism, which was mainly a system of monopoly and advantage; and it was as a result of this advantageous position which they occupied that the merchant class was able to accumulate those large fortunes in the seventeenth and eighteenth centuries which were in the nineteenth century to provide the fuel for the phenomenal prosperity of industrial England.[2]

In the narrower sense of the term, Mercantilism was a policy of the balance of trade; and it was in this sense that the term appeared in the commercial pamphlets of the period. To the view of Thomas Mun, the son of a rich mercer and one of the ablest of the Mercantilist pamphleteers, it was profitable to a country to have as large an excess of exports over imports as possible, because thereby treasure would be drawn into the country.[3] But he combated the earlier Bullionist view

[1] *Industry and Trade*, 432; *cf. also* Marx, *Capital*, I, 776–9.

[2] The true nature and the significance of colonialism to the rise of capitalist undertaking is too frequently neglected. On this matter Mr. J. A. Hobson has written: "Colonial economy must be regarded as one of the necessary conditions of modern capitalism. Its trade, largely compulsory, was in large measure little other than a system of veiled robbery, and was in no sense an equal exchange of commodities. Trade profits were supplemented by the industrial profits representing the 'surplus-value' of slave or forced labour and by the yield of taxation and plunder." (*Evolution of Mod. Capm.*, 13.) Sombart says: "Forced trading is the proper term to apply to all barter between uncivilized people and Europeans in those days." (*Quintessence*, 74.) Details of the exploitation of India by the East India Company were furnished by Prof. G. Unwin in a paper to the Manchester Statistical Society, Jan. 9th, 1924.

[3] Writing in 1664 he said: "The ordinary means to increase our wealth and treasure is by Forraign Trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value. For, suppose that when this Kingdom is plentifully served with the Cloth, Lead, Tinn, Iron, Fish, and other native commodities, we doe yearly export the overplus to forraign countries to the value of 22 hundred thousand pounds, by which means wee are enabled beyond the seas to buy and bring in forraign wares for our use and consumption to the value of 20 hundred thousand pounds, which must be brought

that the export of money should always be disallowed, on the ground that to send money abroad in the cause of trade development would ultimately so increase general trade as to stimulate exports as well, and so ultimately to enrich the country with treasure.[1] This doctrine, of course, drew part of its strength, as Adam Smith pointed out, from the popular error that abundance of money was abundance of wealth, as the subjects of Gengis Khan judged a country's opulence by its abundance of sheep and oxen.[2] But it no doubt had a good deal of justification as applied to the conditions of the time. Coined money in mediæval times had been the scarce commodity *par excellence*, and the demand for it was generally both intense and inelastic. Columbus only expressed the usual opinion when he said: "Gold is a wonderful thing. Whoever possesses it is lord of all he wants. By means of gold one can even get souls into Paradise." Gold as a means of exchange was universally scarce between the fourteenth and sixteenth centuries, and a severe rivalry resulted between the nations of Europe to secure each for itself as large a supply as it could. A country which did not take part in this scramble might well have found its supply of money sadly deficient to keep pace with the expansion of its commerce. Moreover, in the absence of a credit-banking system gold was an important basis of capital accumulation. Adam Smith might ridicule its value as a durable object by pointing to the durability also of pots and pans; but so long as the former remained universally acceptable as a means of payment, it constituted the most satisfactory means of accumulating claims on economic resources. Though this might not directly affect the wealth of the community as a whole, it was clearly very material to the power of *individuals* to

to us in so much treasure, because that part of our stock which is not returned to us must necessarily be brought home in treasure." (*England's Treasure by Forraign Trade*, 7.)

[1] *Ibid.*, 19–27.

[2] *Wealth of Nations*, Bk. IV, ch. 1.

accumulate claims on social wealth; and it was this which was significant in the growth of capitalist undertaking.

Moreover, there was another aspect of the matter which has some interest in relation to present-day currency issues. After the discovery of the New World and the decline of the Lombard bankers, Antwerp (and later Amsterdam) became the financial centre of commercial Europe. England as a developing commercial country stood in relation to Antwerp much in the same relation as the Federation of British Industries now stands to "The City" and as the interests of the Middle West of U.S.A. stand to Wall Street and the Federal Reserve Board. Antwerp as a financial creditor centre was interested in preserving the value of the precious metals, and was wont to regulate this value by exporting any surplus supplies from Europe to the East.[1] England, on the other hand, disliked deflation, and would have preferred for the expansion of its commerce progressively easier money conditions. Hence, in the seventeenth century the continual occupation of English legislators was to devise means to prevent the drain of coin "into other kingdoms, especially into France and Holland, where it was worth more," and Sir Thomas Gresham was sent on a mission to the Netherlands expressly to complain of the export of gold to the East.[2] There were, therefore, plenty of powerful interests in England to explain, at any rate, the popularity of the doctrine. At

[1] At the present day the Federal Reserve Board achieves the same result by storing up gold and refusing to let it increase the dollar circulation. The more it does this, the greater is its interest in preserving gold value.

[2] Shaw, *Hist. of Currency*, 62–3, 73, 145 *seq.* Marx remarked that "a fall in the value of the precious metals favours the debtors at the expense of the creditors, while a rise in their value favours the creditors at the expense of the debtors," and maintained that there existed a contradiction between the two functions of money as a measure of value and as means of exchange, the former requiring a limited and the latter a free supply of gold. (*Critique of Political Economy*, 159, 201.)

the same time, it seems fairly probable that the writers of the time welcomed the doctrine as a suitable justification of the wider mercantile system, with its fostering of foreign markets for export and its protection of the home market against imports from abroad. A favourable balance of trade would be a fair index to the merchants of the expanding markets which they sought ; and in this way, as part of a wider whole as well as a purely monetary doctrine, the theory of the trade balance may have served a double purpose.

Adam Smith and the writers of the nineteenth century looked at Mercantilism in the clearer light of the dawn of a new age ; and from this standpoint it was natural that they should have emphasized most severely its bad effects. Their chief complaint was that monopoly seriously disturbed static entrepreneur adjustment, and the thesis which concerned them was that freedom would better allow resources to adjust themselves in the most profitable way. Nevertheless, there seems little doubt that from the dynamic viewpoint Mercantilism and its elaborate system of state-controlled monopoly played in its time a definitely constructive *rôle*. Without it the preconditions for the revolutionary development of capitalist undertaking in the nineteenth century would scarcely have been prepared. Without the careful protection of monopoly it is doubtful whether any but the abnormally courageous spirits could have borne the uncertainty of adventuring abroad. Not only did the protected companies give the strength which comes from unity and combination ; they were ensured by their monopoly of sufficient profits to make the large risks of foreign commerce worth while. Without the differential gains of the upper class the large capitals would not have been available to finance the huge enterprises of two centuries later. Without the new vision which was given of the possibilities of undertaking it is doubtful whether the spirit of enterprise would have been sufficiently matured to effect the sweeping changes of the industrial revolution. Criticism of Mercantilism would, perhaps, be juster, if it were concentrated on the imperfections of senility and the untimely postponement of the system's death.

CHAPTER EIGHTEEN

THE RISE OF THE WAGE-SYSTEM

THE accumulation of capital so as to create a class of undertakers, suitably equipped to organize production on a reasonably large scale, was not the only material prerequisite for the "coming of age" of capitalist enterprise. As Gibbon Wakefield acutely saw,[1] capital is a desolate swain when it has no dependent proletariat with which to mate. We must not, therefore, fail to give a due place of honour in our description to those factors which prepared the wage-system by creating a class that had only a meanly esteemed manual service to render to society.

In studies of economic distribution the bases of the wage-system are usually taken for granted. Yet the factors which brought the system into being will clearly be determining elements in any distribution of income which is raised upon this base. If it were the exercise of unfettered free choice which caused a certain section of the community to devote itself to work for wages, then the distribution of income which resulted would be affected very little by institutions fashioned with human hand, and could be said to be in this sense a purely "natural" distribution. But if the change were caused by other influences, limiting and bending the choice of individuals, then those influences would be principal factors, worthy of a prominent place in any theory of distribution under a wage-system.

The story of the rise of wage-labour can be traced most

[1] See above, pp 154–5.

clearly, perhaps, in the mining industry; for, it is here that one can view plainly those factors which were often elsewhere obscured by other details and bent by refracting influences. Here one can find in the institution of "free mining" a condition of classless individualism which is probably much purer than ever existed in most of the towns; and the direct effect of the rise of monopoly on the artisan and small master stands out with especial clearness, so that one can study in its simplest characters the transitional relation established between the worker and the monopolist. Out of this transitional relation grew the wage-system, which, systematized and dignified with the passage of time, seemed to the eyes of the nineteenth century to be rooted in the natural order of things.

In many mining areas, indeed, the problem of transition scarcely arose. The period of classless freedom never existed; and the mines being operated originally as feudal enterprises by their owners were later leased to capitalist undertakers who operated them on modern lines with improved technique. Mining with serfs was common in the Middle Ages. In Germany it was the custom of princes and seignorial lords, and in Russia the use of serfs in mines was as common as it was in all the early industrial ventures. When in the seventeenth and eighteenth centuries the Tsar encouraged mining enterprise by concessions to foreign adventurers and to native merchants, it was his habit to assign serfs to the concessionaires, since "being of the class of merchants, they had no vassals and could not procure any voluntary workmen"; and when these workers revolted he lent the royal troops to restore order and obedience.[1] In England, the mining of coal and iron was not common till fairly late in mediæval times; but the ownership of the mineral went with that of the soil, and the feudal lord accordingly

[1] Scrivenor, *Hist. of Iron Trade*, 160–4.

either worked the mines as feudal enterprises, or leased them to others, according as he willed. Not infrequently these leases were made to monasteries. The earliest mentions of grants of land for coal were to monks, and in Yorkshire and Durham and Lancashire the hiring of mines both for coal and iron by monasteries and priories is quite commonly recorded in the thirteenth and fourteenth centuries.[1] In some cases licences were given to small masters, who were able to work the outcrops with a few companion workers ;[2] but these, on the whole, do not seem to have been very important, as the most remunerative seams appear usually to have gone to some bigger lessee. In other cases the mines were rented to the country gentry, as, for instance, five mines at Whickham, in Durham county, by the Bishop of Hatfield to Sir T. Gray and the rector ;[3] and often to rich townsmen, like Robert Rhodes, a Newcastle lawyer, who had other mines at Whickham,[4] or like William Goderswyk, a merchant representing a Cologne syndicate, and John Marchal, a mercer, who later, in the fifteenth century, worked an iron mine of the Duke of Gloucester.[5] In these cases the work was apparently performed by hired or bonded labour. Down to the reign of Elizabeth serfdom in the mines was very common ;[6] and in Scotland, where the miner worked with a collar about his neck, on which was inscribed the name of the owner whom it was his good fortune to serve, the system continued right down to 1800.[7] After the Black Death much complaint was abroad of shortage of labour, and in reparation of their misfortune the mine-owners of Whickham and Gateshead were given the right to impress workmen for their service.[8]

[1] Galloway, *Annals of Coal Mining*, 21, 69 ; *V.C.H. Yorks*, 2, 340–3 ; *Lancs.*, 2, 351–6 ; *Durham*, 2, 322–3.
[2] *V.C.H. Yorks*, 2, 341.
[3] *V.C.H. Durham*, 2, 322.
[4] Galloway, *op. cit.*, 67.
[5] *V.C.H. Yorks*, 2, 354.
[6] Galloway, *op. cit.*, 76.
[7] Bremner, *Indys. of Scotland*, 5, 20.
[8] Salzmann, *op. cit.*, 11.

Later the more progressive undertaker, with new ideas and with capital to adventure, appeared upon the scene. A shrewd financier, Sutton, who was master of the ordnance at Berwick, obtained a long lease in the sixteenth century of the Whickham and Gateshead mines ;[1] and in ways similar to this the mere transference of mining rights to new lessees sufficed in coal mining to make capitalist undertaking supreme.

In the case of gold and silver, ownership in England was vested in the Crown, and the mineral was usually worked by special King's miners, who were impressed like soldiers and bound to their occupation, but at the same time received fairly handsome remuneration and prided themselves on being of privileged rank as servants of the King. It was these royal mines which the Crown found so valuable an asset as pledges to royal creditors ; and in 1299 Edward I. gave a mine in Devonshire as a concession to some Italian financiers of the Frescobaldi, to whom he agreed to supply the necessary labour at the customary wage.[2] Later, when the English merchant class had ousted the foreigners as holders of the royal credit, these royal mines were granted to a capitalist company, the Mines Royal, on condition of a tithe of the metals being yielded to the Crown ; and this company, together with its sister firm, the Mineral and Battery Works, formed in Tudor times a powerful monopoly employing 10,000 persons.[3]

What is of greater interest for our purpose is a third group of mining districts where, by customary right, confirmed by charter from the Crown, the system of "free-mining" prevailed. In England these districts comprised the Forest of Dean, the tin-mining areas of Cornwall and Devon, known as "The Stanneries," and the lead mines of Derbyshire, the Mendip Hills and of Alston

[1] *V.C.H. Durham*, 2, 326.

[2] G. R. Lewis, *The Stanneries*, 192–3. These were tin mines.

[3] W. R. Scott, *Joint Stock Companies*, Vol. I, 31, 39–58 *et seq.*

Moor in Cumberland. The chief feature of this customary free mining was the right of "bounding," by which any inhabitant of the area, be he villein or gentleman, could stake out a claim for himself and on payment of the customary fee to the Crown or the feudal lord, was free to start mining without further hindrance. Only if he failed to work the claim or transgressed the mining code was his right liable to forfeiture. This institution of "bounding," so long as there were available ore deposits, prevented the ownership of minerals from being converted into the monopoly of a few, as happened in the case of coal. It limited the size of any single holding, and left it "open to the poorest villein to become his own master simply by laying out a claim and registering its boundaries in the proper court."[1] The mining law of the Mendip Hills provided that after procuring a licence from "the lord of the soyll," the miner should be "at hys fre wylle to pyche wythyn the seyd forest of Mendip and to brecke the ground where and yn what place he shall think best himself." The right to the claim and its size was determined either by a throw of the axe or by setting up "a payre of styllings wythyn 24 hours."[2] But the independence of the miner was still further safeguarded. In Cornwall and Devonshire the miner was protected in the right of free access to running water for washing his ore, and in the right to procure faggots for his smelting forge. In Derbyshire he was allowed to cut wood and timber for his mine and for smelting from the King's forests; and in Somerset and Cumberland it was expressly provided that he should be free to smelt his ore wheresoever he pleased.[3]

[1] G. R. Lewis, *op. cit.*, 35. Mr. Lewis gives the opinion that "had the mines remained attached to the ownership of the soil, perhaps nothing could have saved the Stanneries from a *régime* of capitalism."

[2] *V.C.H. Somerset*, 2, 367.

[3] Salzmann, *op. cit.*, 46; *V.C.H. Cornwall*, 1, 526; *Somerset*, 2, 368; *Derby*, 2, 326.

These rights were as necessary to the independence of the miner as were the rights which the burgesses secured for themselves; and, indeed, they were in some ways very similar. Like a town community, the miners had a mining court of their own,[1] and in the Stanneries they had a Parliament to legislate in matters concerning mining law and usage. But, on the other hand, the free miners formed no gild and did not engage in corporate action as did the towns; they remained a scattered community of small masters and artisans, protected in their independence by the Crown;[2] there were no exclusive restrictions against new-comers, and all were free to engage in trade. In the exceptional case of the Forest of Dean something approaching a close corporation existed, with collective regulations and functions, bearing much resemblance to those of an urban community. In the matter of sale a kind of collective bargaining—or at least a fixing of minimum prices—was the fashion, under the surveillance of "bargainers" appointed by the miners' court. Entry to the privileged ranks was restricted with severity to sons of free miners or those who had served an apprenticeship; and, to preclude any monopoly of middlemen and the concentration of power among the miners into the hands of a few, the carrying of coal and ore was confined to miners, and no miner was allowed more than four horses or to have a wagon or to become the owner of a forge.[3] In this way the provisions which safeguarded the miners from dependence on monopoly were supplemented by regulations which, by the limitation of numbers, tended to secure something of a monopoly position for themselves.

But though this mining law hampered the break-up of

[1] The reason for the existence of this from a very early date seems to have been the technical nature of the matters submitted to it, which necessitated special judges who were intimately acquainted with mining.

[2] The Crown drew revenue from mining and coinage dues, and so was particularly interested in preserving the prosperity of these areas.

[3] Lewis, *op. cit.*, 168–173; *V.C.H. Glouc.*, 2, 233–4.

classless individualism, it was finally to be overborne by a current that was too strong for it. It sufficed, it would seem, for the most part to restrain any tendencies towards class cleavage which were internal to the mining communities, such as occurred inside the towns before the fifteenth century. The forces which finally destroyed the independence of the mine-worker and subjected him to the capitalist were mostly those which pressed upon the mining communities from outside.

Some tendency to inequality, it is true, must have always existed in the special advantage which those who had been first-comers and had been fortunate in good "diggings" were able to possess; and the profits of early arrival and of "windfall" discoveries must have played some considerable part. But as long as there were free "diggings" available and free access to them was allowed, this tendency to inequality was not likely to be very great. More important, perhaps, was the rise in the fourteenth century of what is known as the "cost agreement" system, under which one of the associates of a mining group was excused from actual labour on payment of a money sum. In spite of continual enactments to the contrary many of those possessing mining claims sold them or sold shares in them to country gentry and clergy and merchants of the towns; and as a result we soon find in the coinage rolls persons such as Thomas the Goldsmith, Richard the Smith and Thomas the Pewterer, the Vicar of Bodmin and the Rector of St. Ladoce, the clerk of Lostwithiel, a merchant, and the priors of Tywardratch and Mount St. Michael recorded as "producers" of tin.[1] As a result of this there tended to develop the "tribute system," by which the owners, being unwilling to work the mine, would lease it to a group of workmen or to a small master on condition of receiving a proportion of the produce. But the lessees of the mine

[1] Lewis, *op. cit.*, 189–190; *V.C.H. Cornwall*, I, 539, 556.

could only exact from the tributers the equivalent of the differential advantage they enjoyed from superior possession, since otherwise the tributers would prefer to dig an inferior claim for themselves. So long, therefore, as free "diggings" were available and trade in tin was unobstructed, the power of the mine lessees was not very great and the position of the tributers was not very low. In the fourteenth century one hears of "Abraham the Tinner," who employed three hundred persons, and of "certain of the wealthier tinners of Cornwall," who "had usurped various stanneries by force and duress and compelled the stannery men to work in these, contrary to their will, for a penny for every other day, whereas before they worked twenty pence or more worth of tin per day, and for a long time had prevented tinners from whitening and selling their tin worked by them."[1] But these were, so far, only exceptions, and the heyday of the capitalist undertaker was not yet.

By far the most important *rôle* in the transition was played by a growing advantage on the part of the smelters and ore dealers and the buyers of tin, under whom the mine-workers came into increasing subjection. From the earliest records we find that the sale of tin was confined to two coinage days in the year, when tin could be stamped at the appointed coinage towns and the appropriate dues paid; and at the beginning of the fourteenth century there were complaints from the tinners that the staple for tin had been fixed at Lostwithiel, a town some distance from the mining centre.[2] These two factors combined placed the tinner of small means at considerable disadvantage. He had no money with which to finance his operations in the intervening six months before he could market his tin, and he might often be unable to bear the cost of carting his produce to the distant coinage town;

[1] Lewis, *op. cit.*, 189–190.
[2] Lewis, *op. cit.*, 210 and 212; *V.C.H. Cornwall*, 1, 558–9.

whereas, on the other hand, the mine-owner who had an independent income from other sources could more easily do both these things. The result was to place the small tinners and tributers in a position of increasing dependence on gentlemen tinners or on middlemen, who would advance to them capital and would arrange the transport of their tin to the coinage towns ; and the free trade in tin which was a necessary complement of free mining began to disappear. The system of money advances to the tributers, known as " subsist," came more and more into use, thereby placing the mine-worker who held no other property but his mine at a severe bargaining disadvantage and exacting profit from his necessity. By the sixteenth century he had become involved in a mire of dependence, into which he tended to sink ever deeper. Cases of truck-payment added to his plight and reduced his " profits " to a mere starvation wage ; and the tribute system began to give place to " tut-work," under which the owner auctioned the working of the mine to gang-leaders for a piece-work wage, knocking it down to the lowest bidder.[1]

This sorry state Henry VII. tried to better by appointing two extra coinages, " because the poor tinners have not been able to keep their tin for a good price when there were only two " ; and an ordinance of 1495 further provided that " no persone, neyther persones, having possession of lands and tenements above the yerely value of £10 be owners of eny tynwork, with the exception of persons claiming by inheritance or possessed of tynworks in their own freeholds." But though these measures may have given some temporary alleviation, the general tendency seems to have continued for the most part unchecked. The remedies had come too late : dependence had already fastened its shackles on the miners ; already many persons of property could " claim by inheritance " the possession of " tyn works," and the middlemen were

[1] L. L. Price, *West Barbary*, 37.

already entrenching themselves between market and worker. In general, as Mr. Randall Lewis says, "with true *laissez-faire* spirit the English mineral law left the unorganized tinners . . . unprotected, and handed them over to the tender mercies of the middleman and regrator."[1]

There was, however, to be a further monopoly added to the load on the miner's back. With the expressed object of providing a steady market for tin and a source whence capital could be advanced to the industry, a monopoly was established in the buying of the metal, in which the London Pewterers' Company had an important share. But whether or not this institution brought benefit to the middle layer of tin interests—the local dealers and smelters and the rich tinners—such benefit was certainly not transferred to the mine-workers. The buying price of tin remained low in spite of rises in the export price ; and when during the Commonwealth the monopoly was removed, the price of tin rose from £3 to £6 per hundredweight ;[2] while, the coinage system falling into disuse, the wages of tributers and tut-workers rose to 30s. per month.[3] The Restoration, however, saw the buying monopoly and coinage rules re-imposed, and wages fell again by a half. There followed riots at Falmouth and Truro, and the miners appealed for free sale of tin and the removal of the monopoly, a claim which the rich tinners opposed.[4] But after this inconclusive show of resistance the miners were compelled with bad grace to accept the position, and the lines of dependence were fastened by two stages of usury. In the first instance, the merchant monopolist at the top advanced money to the tin masters, dealers and smelters, and took, in the low

[1] Lewis, *op. cit.*, 211. By this time the Stanneries' Courts and Parliament seem to have been composed almost entirely of gentlemen tinners and ore dealers and merchants.

[2] *Ibid.*, 220. [3] *V.C.H. Cornwall*, I, 558–9. [4] Lewis, *op. cit.*, 220.

price he offered, interest and monopoly profit to the extent of 60 per cent. In the second case, the tin masters and dealers and smelters in turn advanced money to the tributers and tut-workers and from them made usurious exactions.[1] Finally, in the late seventeenth century the owners of smelting houses, instead of advancing money to groups of workers, appear often to have become themselves "adventuring tinners" and directly to have employed the miners for a piece-wage.[2] Usury had passed, and the wage-system erected on its foundation was almost complete.

Unfortunately, in other free mining areas information as to the transition is much more scanty. In the Forest of Dean the transition seems to have come through increasing breaches in the protective provisions with which the miners had entrenched themselves. It became common, in imitation of the town gild, for gentlemen of means to be elected as free miners; and in spite of prohibitions claims were frequently leased by their owners to outsiders. But the greatest breach was apparently the institution of monopoly in the smelting of the ore. In the late sixteenth century the Crown gave licences to capitalist adventurers to erect blast-furnaces in the Forest; and these, supplanting the obsolete bloomeries, caused much discontent and even riots among the free miners on complaint of "frequent assaults upon the privileges of the miners by royal patentees."[3] In 1640 the miners' rights were still further encroached upon by a grant from the Crown of all mines and mineral rights in the Forest for £10,000 and £16,000 annually to Sir John Winter. Riots and prolonged litigation followed, but the miners had gradually to abate their claims. In 1678

[1] *Ibid.*, 214–16. The ore-dealers appear to have made not infrequently a profit of from 80 to 90 per cent.
[2] Levy, *Monopoly and Competition*, 9.
[3] *V.C.H. Glouc.*, 2, 225; *cf.* Lewis, *op. cit.*, 208.

they abandoned their prohibition of the carting of ore and coal by outsiders, and nine years later they surrendered their right to control selling-prices. The encroachment of the capitalist, who could mine with improved methods and market more easily and wisely, became increasingly great, and free mining was no more.[1] But the mining law, while it lasted, had apparently this significant effect: it considerably delayed the intrusion of the capitalist undertaker, so that he was not established as a mine adventurer until the seventeenth century.

In the Mendip area, very similarly, monopoly in the smelting of ore played a leading part. The lords of the soil apparently disregarded the provision in the mining law which secured to the miner freedom to smelt his ore where he pleased; and we find that "the more powerful lords used every effort to ensure that the lead ore raised on their own lands should be smelted at the furnaces of the lordship."[2] Towards the end of the sixteenth century speculators and adventurers from outside were showing willingness to advance capital to the miners in return for "parts" or shares; while, on the other hand, miners who were in difficulties were eager to mortgage their mines for ready cash. "Bristol merchants, neighbouring gentlemen, local publicans, all took a hand in the game," and in this way the class division which was growing up outside transferred its impress to the mining community. Those with the capital had wider opportunities: they could sink deeper shafts and reach richer deposits, and perhaps more easily evade the smelting monopoly, and they could do their own marketing with greater ease. As a result, they gradually supplanted the poor miner; but whether the miner himself became reduced to dependence on the new capitalists, and, if so, in what manner, available records do not tell.[3]

[1] *V.C.H. Glouc.*, 2, 225–8.
[2] *V.C.H. Somerset*, 2, 368.
[3] *Ibid.*, 374–6.

In the silver mines of Saxony one can trace a development that is quite remarkably parallel. Here it had been the custom for seignorial lords, if they did not wish to work the minerals themselves with serfs, to lease their mines to associations of workmen. These worked co-operatively after the manner, it would appear, of a Russian *artel*, and encouragement and protection was received by them from their lord, since he profited by a share of their produce. In some cases these communities were given the immunity from feudal law which trading communities enjoyed ; and where their ventures brought success, they were frequently raised to the dignity of a special mining town with a law and court and government of its own. What the exact status of these mine associates may originally have been it is not easy to see ; probably they were mainly peasants or artisans and not persons of the servile class. But at any rate by the fourteenth century associations seem either to have become prosperous or exclusive, or else to have sold out their claims to others—to local squires and clergy or to merchants of the town. To aid the rapid exploitation of the mine, the seignorial lords encouraged the development of the tribute system, and specially provided that the tributers to whom the mine was leased should be labourers without property, landowning peasants being excluded. To these tributers certain materials were furnished, and they, having few alternative means of livelihood, were usually willing to agree to yield a fairly large share of their produce to the association. In this way a clear line came to be drawn between the capitalist associates who owned the mine and the tributers who leased and worked it. The latter surrendered to the former a share of the produce which they mined, because the latter had no alternative but to labour and the supply-price of their labour was consequently low, whereas the former had alternative sources of income from land and commerce and so were economically self-sufficing.[1] This tribute-system was, therefore, a half-way house to the wage-system, to which a transition seemed sooner or later inevitable, " owing to the increasing disparity in bargaining power between the two parties concerned."[2]

But it needed the presence of some other factor to place the tributer speedily in a position of actual dependence. Though at a disadvantage, he still retained some of the independent status of the artisan. His position was largely set by the alternative opportunities which were open to the propertyless worker in the towns ; for, this fixed for the tributer the minimum supply-price of his labour. But only in so far as there was very keen competition for employment or the urgent needs of his penury rendered him weak in bargaining, was he unable to retain from the product of his mining efforts something more than the equivalent of that minimum supply-price. In Saxony, as in the Forest of Dean and the Mendips, that other factor which completed the transition was a monopoly among ore-purchasers and smelters. In particular, the smelters were able to form a strong monopoly, based on concessions to build smelting works which they bought from the feudal lords. In the fifteenth century " the records give abundant evidence of the increasing difficulties in selling, and the complaints of the tributers rehearse in no uncertain terms the straits to which they were reduced by the oppressions of the ore-purchasers and smelters."[3] To improve their evil plight the Emperor Maximilian erected a smelting house to take the tributers' ore, and Ferdinand took similar action in the Black Forest. But these remedies seem to have given no more than temporary alleviation. For a

[1] This is an interesting rudimentary instance of Marx's claim that the significant feature of capitalist production is the difference between the value of labour-power and of its product, which gives rise to surplus-value—the income of the capitalist class. (*Capital*, Vol. I, 123–180.)

[2] Lewis, *op. cit.*, 180, *also* 74. [3] *Ibid.*, 180.

time the miners resisted by the formation of gilds and the use of strikes. Nevertheless, their position slowly retrograded; piece-work and even time-work supplanted the tribute system; and by the end of the sixteenth century it became frequent for leases to be given to capitalist lessees. "This continued until, in the course of time, we find the lessee taking on more and more the character of a captain of industry, relieving the associates of . . . the whole of their claim."[1]

The clear lines of this transition find illustration in a different and more distant case. In the village commune of Russia we can see an instance of that classless individualism which we have just observed in the free mining areas of England, and in the break-up of this commune we can see similar factors at work. Among the Russian peasants, as in most other such communities, it is the money-lender who is the demon of the story. The richer peasant had the means to rent land from the landowners and to provide the working cattle and instruments for tillage. The poor peasant, on the contrary, could not do this, and if he rented land at all it had to be on the *métayage* system, under which he yielded "as much as a half of the produce to the owner of the land." It was the custom periodically to redistribute the land of the commune according to the amount which each could till. But, as things were, this helped the poor peasants little; for they could ill afford to cultivate the land, and most of the land was claimed by the richer peasant, who leased it out to his poorer neighbour on *métayage*. This, combined with heavy taxation and his inability to find the means to purchase his seed, forced the peasant into the hands of the money-lender; and circumstances were of this kind "about twice a year during the collection of taxes and at sowing-time, when the peasant, hard-pressed for money or seed, is willing to pledge anything to save his household from flogging.

[1] *Ibid.*, 181–3.

Within a few years the peasant is usually turned into a homeless proletarian."[1]

The result was that the *mir* tended to become a commune of landowners rather than of tillers of the soil, and the former grew rich from the disadvantageous position of the poorer villagers, and the inequality, once started, tended to get progressively greater. The *Narodnics* (Agrarian Socialists), who idealized the peasant commune, looked to it as the institution on which a new Russia, spared a period of capitalism, might arise ; but the State loans which they advocated to aid the peasants seem to have gone mostly to the good security of the richer peasant, and by enabling him to hold or rent more land actually deepened the class cleavage. In addition to leasing land on *métayage*, the rich peasant, who could purchase raw materials, instituted village industries, known as *Kustar* industry, and employed the poorer peasants on the "putting-out" system. These small *Kustar* undertakers often grew rich and became traders and speculators and money-lenders themselves ; whereas their poorer brethren sank further into dependence, until to maintain themselves on their meagre holdings, burdened by debt and taxation, several members of a family had to seek employment in the rising factories of the towns. In this way a basis was laid for capitalist undertaking, which had been hampered hitherto by a scarcity of labour, and the fair dream of the Narodnics faded ingloriously away.[2]

These instances of the transition to wage-earning, where the operations of the chief tendencies are easily laid bare, afford lucid illustrations of four important points. First, they show that the disappearance of free land, either by concentration of ownership or by increase of

[1] N. I. Stone in *Pol. Science Quarterly.*, XIII, 107 *et seq.*
[2] *Ibid., also* Margaret Miller, *Trade and Industry of Russia*, 1905–14 (not yet published), Section 3.

population, is not the only or even the principal factor in the development of the wage-system, as has sometimes been maintained.[1] The monopoly of land by a section of the community is merely one among several other species of monopoly which establish the pre-eminence of a privileged class; and in the case of the Russian commune the possession of implements was more important than the possession of land.

Second, these instances reveal a similarity between that species of surplus, due to differential advantage of fertility and position of land, which Ricardo and his followers singled out as economic rent, and the wider surplus income that accrues to differential advantages of every kind. While alternative "diggings" were available for the Cornish tin miner, the lessor of a mine could only exact from the tributer the difference between the fertility of his mine and that of the less fertile "marginal" mine; for, the latter was the alternative opportunity for the tributer, and so set his minimum supply-price. This payment to the mine-owner would be in the Ricardian theory economic rent. But what of the case when free land or free "diggings" were no longer available, or when the tributer could not afford to market his ore? The surplus which went, in this case, to the gentleman mine-owner, who, maybe, advanced "subsist" to the tributer, would be similarly determined by the differential advantage which the former enjoyed. In this case the advantages were of wider opportunities, perhaps of monopoly position and of bargaining power; and the more the opportunities of the labourer were narrowed, the larger was the surplus, *ceteris paribus*, likely to be.

Third, these cases of transition give evidence of the effect which political institutions and the use of political power may have on economic development and the

[1] *E.g.*, A. Loria, *Econc. Foundatns of Society*, 1–9, and *Analyse de la Propriété Capitaliste*.

distribution of income. The mining law in England delayed the transition, and an earlier and more vigorous application of some of the wiser Tudor remedies might have delayed it for much longer. In Russia the taxation policy of the Tsarist government was an important factor in depressing the poorer villager and placing him in dependence on the money-lender and the *Kulak;* whereas, on the other hand, the policy of the present Russian Government in aiding the poorer peasant through the agency of the co-operatives may hamper the growth of a class cleavage which has once again commenced to appear. Institutional factors play a large part alike in the growth of a class system and the preservation of a classless society.[1]

Fourth, we see here very clearly one of the origins of undertakers' profit in usury. With the triumph of classical economy the opinion of usury which was held by Church and feudal writers of the Middle Ages was rejected and scorned. It has mainly become the habit to treat such theories as the quibbles of those who misunderstood a new state of affairs, and sentimentally condemned as immoral what was merely an economic price for a much-needed factor of production. This very largely they no doubt were: but at the same time it would be wise not to miss a certain truth which underlay those opinions of the Schoolmen. As Dr. Marshall has indicated, their objections had some validity in that "those who borrowed were generally the poor and the weak, people whose needs were urgent and whose powers of bargaining were very small."[2] This

[1] There is, therefore, no reason to suppose that inequality would necessarily arise spontaneously and inevitably, were an equal economic system to be instituted, as Dr. H. Dalton has pointed out in correction of some statements of Dr. Temple and Professor Pareto (*Inequality of Incomes*, 241). It will all depend on institutional factors.

[2] *Principles*, 584; *also* G. Cassel, *Nature and Necessity of Interest*, 1–3. Loria speaks of the "credital monopoly" as "a powerful weapon of burgher income to the disadvantage of feudal income," and as "victimizing the poorer members of the primitive communities" (*Economic Synthesis*, 283).

was the case with the tin miners and the Russian peasants in the examples we have mentioned, and these were very far from being insignificant incidents in economic development. There would seem, therefore, to be an important distinction between interest and usury in the difference of a loan-contract between groups of persons of nearly equal time-preference or urgency of present needs, and such a contract between persons whose time-preferences are widely unequal. The former is a payment equal to the supply-price of the loan, being based on the burden of "waiting" or postponing consumption which the lender suffers. Usury, on the other hand, is a payment in excess of this and is exacted from the relative disadvantage of the debtor.[1] That the profits of the money-lender or of the tin-master or smelter who advanced "subsist" were derived from a contract of this kind is fairly clear. What is less clear and has been missed by most modern writers on the theories of interest and of profits is that the modern wage-contract partakes, too, of this character, as does also a loan-contract between a

[1] *Cf.* G. Cassel, *op. cit.*, 180–1, who calls this "robbery" exacted from the defective organization of the market. Where, of course, the facility of supply of loan-capital is indefinitely large, no surplus of this kind can be secured *in the long period;* for, the usurious rates on loans will attract fresh capital, until the increased competition reduces the interest to the marginal supply-price, leaving no surplus. Where, however, the supply of loan-capital is not very facile, and the owners of it are in a position of monopoly, the competition of new capital will be limited, and some surplus will remain, even when the long-period forces have been fully spent. Though an addition to monopoly profit, this species of surplus is logically distinct, since it only occurs where this kind of bargaining advantage is added to monopoly. Profit clearly contains this surplus (*cf.* above, Chap. 6). But in the long period the surplus may hide itself as what Dr. Marshall has called "saver's surplus." For, where the rising "cost" (in time-preference) of fresh "savings" is the chief limit to fresh supplies of capital, then competition may reduce the *rate* of profit on undertakers' capital until it equals the *marginal* supply-price of capital. But since this marginal supply-price is higher than that of other units of the supply, a surplus will appear in a return to capital in general. In the case of the increment of undertakers' capital, due to the capitalization of the high profit yield, the income derived from it will be pure surplus.

backward country and some powerful financial group.[1] In both cases the contract is between two parties who differ widely in the insistence of their present needs ; and as the yield of usury contains a surplus above interest, so profits is composed in part of usurious exaction. What tradition and usage have mellowed and covered with the lichen of time a study of origins may reveal in a sharper form.

[1] See above, pp. 107, 110, 171–2, and below, p. 347.

CHAPTER NINETEEN

THE FIRST PERIOD OF CAPITALIST UNDERTAKING

THE Domestic System is no simple and homogeneous form, sharply separated from the new system of the nineteenth century by well-defined features. It had as many varieties within itself as has the ever-changing industrialism of the modern world; and some of its later features are, in fact, nearer to early examples of factory industry than they are to the earlier types of domestic production itself. To a general view it can be divided into two main phases. In the first phase the craftsman still retained much of his former independence. He often bought his own material himself, and arranged the sale of his product, maybe, in the local market, and he retained free ownership of the tools with which he worked. Both in the purchase of material and in selling his product he was at a disadvantage, since his opportunities for sale and purchase were less than those of the merchant undertaker. He had to content himself with dealing in the narrow limits of a local market or else with a few large undertakers, who were in every way his masters in the bargain. But in spite of this, his power of purchase, though limited, was fairly free. It was the exception for the merchant undertaker to furnish the craftsman directly with his materials and to pay him merely a commission-wage, as was so common in the eighteenth century. Still rarer was it for the undertaker to own the craftsman's tools, as some clothiers owned the weavers' looms. The merchant undertaker found more to gain from exploiting his wide opportunities for new markets, than he gained out of the depressed status of the craftsman.

In the second phase, however, the dependence of the craftsman was much greater, and tended to increase until it was almost as great as that of the complete proletarian of the factory system. This phase may be said to have been born amid the political disturbances of the mid-seventeenth century, and to have continued till its serenity was harshly broken by the turmoil of the Industrial Revolution. By the middle of the seventeenth century a new class of undertakers had arisen, in part from the more powerful and prosperous of the master-craftsmen of the sixteenth century, who came to be interested in organizing the manufacture of goods and ensuring their sale in existing markets rather than in promoting new adventures overseas. These were the new merchant manufacturers who "engrossed" the markets of the craftsman, and so narrowed his markets of purchase and sale that he was nearly as dependent on the undertaker for employment as is the wage-worker. In this second phase of the domestic system the undertaker quite commonly gave out materials to the craftsman to be worked up to his order, and paid him a commission-price for the work that was done. In some cases he even owned the workers' tools and in a few cases the domestic workshop. He had become, in fact, the industrial undertaker who controls, plans and organizes a whole process of production. The only difference of form between it and more complete industrialism was that the actual work of production was scattered, instead of being concentrated in factories.

The story of this development is not a simple one. It does not follow the clear-cut paths which *a priori* historians would map out for it, nor does it show the smooth urbanity of a harmonious broadening process. Its tracks are hid in large part beneath the internal records of the Gilds and Companies of the Tudor and Stuart periods, and Professor G. Unwin has been almost alone in telling the story of it. The crucial period of the development was the mid-seventeenth century, when a new class of capitalist interests, having their attention more centred in industry, began to appear. These newer interests came in conflict with the older-established monopolists of the sixteenth century, who had by now become exclusive in their possession of privilege and of court influence. And the result was an attack on the old system of monopoly granted through court influence to favoured individuals, and the extension of privilege to the rising power of capital as embodied in the Joint Stock Company. This new class of undertakers, having their interests in production rather than in foreign commerce, commenced that reorganization of industry on the basis of the division of labour and that elimination of the independent craftsman, which immediately prepared the ground for the Industrial Revolution.

Already before the Tudor period it was no longer possible to treat the gilds as bodies democratically controlled to represent the interests of their members ; and by the middle of the sixteenth century a quite definite class cleavage had appeared within the large majority of crafts, complicating and strengthening the class cleavage which we saw as the product of the mercantile monopoly of the fifteenth century. In these gilds, as has already been suggested,[1] the richer among the master craftsmen tended to leave the work of handicraft more and more to apprentices and hired journeymen, and to devote their time to the commercial side of the business, trading in the products of the craft.[2] Then it was almost inevitable that this desire should conflict with the monopoly of some

[1] *See* above, pp. 244–5.

[2] Often rich gentry or their sons were made members of gilds and companies, and these would naturally turn to trade rather than to handicraft.

purely mercantile company, and struggles often took place between the two over the admission of the handicraft companies to a share in the monopoly of wholesale trade. In a large number of cases the craftsmen were successful, and companies frequently changed to purely mercantile ones, as when the London tailors became the Merchant Taylors, the haberdashers became the Merchant Haberdashers, and secured incorporation as such. Where they were not successful in this, it seems probable that the richer members purchased entry into one of the mercantile companies, and the craft remained composed purely of handicraftsmen, excluded from the right of marketing their products. For instance, in the fifteenth century we find weavers, dyers and fullers becoming members of the Drapers' Company.[1]

In most of the companies where a strong commercial element appeared control tended to pass into the hands of these merchants and to be used by them to preserve their trading rights against the other members of the company. The upper rank of the company, called the Livery, came to be composed mostly of the commercial element, and the governing body—the Wardens and the Court of Assistants—were drawn from the Livery. "As considerable expense was involved in each stage of promotion (to the freedom, to the Livery, and to the governing body) all but the wealthiest members were permanently excluded from office," and "the majority of freemen gradually lost all share in the annual choice of the four wardens."[2] "The craftsmen proper, under the name of Bachelors or Yeomen, fell into a position of dependence."[3] This occurred, for instance, in the Goldsmiths' Company in the early sixteenth century, in the Haberdashers, the Clothworkers, the Drapers, the Taylors

[1] A. H. Johnson, *op. cit.*, Vol. I, 125.
[2] Unwin, *op. cit.*, 42.
[3] A. H. Johnson, *op. cit.*, 23; *cf. also* Lipson, *Econ. Hist.*, 378–381.

and the Leatherworkers;[1] and in the Clothworkers' Company there were repeated complaints that the provision against the export of undyed cloth—a provision designed in the interests of craftsmen—was persistently evaded by the merchants of the Livery.[2] A similar control of the gilds by the wealthy merchant element seems also to have occurred in most of the German towns and also in the *Corps de Métiers* of Paris[3].

The seventeenth century, however, was to dawn upon a disturbing factor. A section of the master craftsmen was struggling to release itself from the dependence into which the sixteenth century had thrust it. Tudor legislation had had the effect of improving the position of the journeymen, and removing some of the restrictive provisions with which the craftsmen had excluded them from mastership; as for instance the Acts of 1531 and 1536, which reduced the entrance fees in cases where they had been raised abnormally high, and forbade the forcing of an oath on journeymen that they would not attempt to set up as masters on their own. To this end, too, were the journeymen's associations formed in the fifteenth century, which were able in some cases to raise wages and to secure a measure of freedom from the restrictions laid upon them. In consequence, there tended to be a considerable flow of journeymen, either upward into the ranks of masters in the towns, or outward into the country villages to set up as craftsmen, free of gild control, to be employed by the capitalist clothier. In both these ways increased competition

[1] Unwin, *op. cit.*, 43–6; Johnson, *op. cit.*, Vol. I, 148–151, Vol. II, 45–7; Cunningham, *Growth* (Middle Ages, I), 513; Salzmann, *Indys. in the Middle Ages*, 177–8.

[2] In the sixteenth century there were three classes within the Clothworkers' Company: (1) the dependent master craftsmen of the finishing trades; (2) the merchant employers who bought unfinished cloth from the country clothiers and gave it out to be finished and then sold it to (3) the export merchants (Unwin, *op. cit.*, 112–4).

[3] Cunningham, *Western Civilizn.* (Mod. Times), 181; Unwin, *op. cit.*, 42.

among craftsmen was caused, tending to depress not inconsiderably the position of the small masters of many of the town gilds. At the same time the very success of the journeymen's movement produced a weakening of its efficacy for the future. For, since the more energetic and thrifty could better themselves by setting up as masters, the mass of journeymen began to seek in this the most hopeful escape, and to cease to think and to organize themselves on class lines. "It was with the fortunes of the small master that the more ambitious journeyman of the sixteenth and seventeenth centuries tended to identify his interests; and the journeyman class as a class, being thus continually drained of its most enterprising members, tended to slip back to its earlier state of dependence."[1] The journeymen, having raised themselves through organization so as to narrow the gulf which separated them from the class above them, shed their more vigorous members and suffered an apathetic relapse.

The tradition of collective organization seems to have passed, indeed, from the journeymen of the fifteenth century, not to their brethren of the seventeenth century, but to the descendants of the more fortunate among them who had ascended to the ranks of masters. The Yeomanry inside the Livery Companies, though formerly it may have contained journeymen as well as masters, seems by the sixteenth century to have become essentially an organization of small master craftsmen, which had obtained by dint of agitation a certain recognition and a certain modicum of rights within the Livery company. These yeomanry organizations began to take strenuous measures to improve the position of the craftsmen. In some cases where the Livery was very strong they had to confine themselves to improving their position against the journeymen. In 1587, for instance, the yeomanry of

[1] Unwin, *op. cit.*, 58.

the Clothworkers, who had secured the right of appointing two wardens, secured the further right of veto on new masters. An ordinance was secured that no journeyman should set up house except " on the credible report of the wardens of the yeomanry ; " and the Pewterers' Company also seems to have excluded journeymen from the yeomanry, making the latter an organization solely of masters.[1] By the middle of the century a crisis had arisen in most of the large companies, owing to the increasing opposition which the more powerful master craftsmen organized against the oligarchy of merchants.[2]

In other cases small masters' corporations went so far in the seventeenth century as to agitate for incorporation, in order thereby to free themselves from dependence on the merchants. The leather-dressers of the Leathersellers' Company, for instance, in 1619 petitioned James for a charter ; and in the course of their petition set forth their complaints against the merchants of the company, whose wickedness, in their opinion, far excelled that of all other men. " For whereas in all other trades," they wrote, " though the shopkeepers growing rich doe make the workmen their underlings, yet they suffer them according to their increase of ability to become like themselves, and in the meantime to exercise their favour and privilege of their company and society ; and though in some trades the shopkeepers sell to the workmen their materials, yet they take them again from them wrought and manufactured at reasonable rates, as Goldsmiths, Skinners, Silkmen, and divers others." But the Leathersellers are more heinous than these by far. " If once they put their griping hands betwixt the Grower & the Merchant and any of the said trades, they never part with the commodities they buy until they sell them."[3] There are also signs that a ring existed among the traders ; and from this it would appear that the latter forced the leather-

[1] *Ibid.*, 60–61. [2] *Ibid.*, 207. [3] *Ibid.*, 128–9.

workers to work up raw material for them, and for no one else, at a fixed rate. From this absolute dependence the craftsmen were determined to break loose, and by dint of judicious employment of Court influence they received their reward in 1638 by incorporation as the Glovers' Company. Similarly, the Feltmakers, who had been under the control of the Haberdashers' Company, paid the sum of £100 to a Mr. Typper, M.P., and secured in 1604 the passage of a bill through Parliament giving them a charter of incorporation.[1] One of the objects of these new corporations was to establish a common fund, whereby they might purchase their raw material collectively, and so relieve themselves from the disadvantage under which they had formerly laboured in this respect. Where sufficient funds were not available, the help of outside promoters and capitalists had to be secured, as in the case of the Pinmakers' Company; and where these persons were rich or influential their aid had the additional advantage of purchasing or securing the charter of incorporation. Similar monopolies were secured by the Silk-weavers and the Starchmakers, and in the case of the Soapers and the Playing-card makers and of makers of alum and glass by wealthy promoters.

But it was only to a small group of the more wealthy of them that these corporations of small masters brought lasting benefit. To maintain the new freedom from the merchant employers, capital was required; and for this reason there was a natural tendency for the control of the corporation to pass into the hands of those who could supply this want. "The companies of small masters found it either expedient or necessary to allow their industries to be subordinated to the few who, either within or without their organization, were able and ready to contribute the necessary capital."[2] "In some gilds,

[1] *Ibid.*, 134–5.
[2] W. Hyde Price, *Eng. Patents of Monopoly*, 36–7.

as with the Beaver Hat Makers, economic advantages enabled the capitalist masters to gain for themselves a monopoly over the heads of their poorer brethren."[1] In companies like the Pewterers, the Clothworkers, the Weavers, where democratic movements of craftsmen had developed, the compromise which resulted gave concessions of power, not to the mass of the small masters, but merely to the big manufacturers among them. "The Court of Assistants had adopted the policy of making concessions to the industrial interest in order to take the sting out of the popular movement."[2] The mass of the small masters were to find that they had merely changed employers. Now they were dependent, not on a close corporation of merchants, but on a new class of industrial capitalists, entrenched in a monopoly of production.[3] As a result, by the end of the seventeenth century the master cratfsman had begun to sink to a position of increasing dependence, until with the uprooting storms of the Industrial Revolution he was forced down into the ranks of the wage-earners themselves.

The four middle decades of the seventeenth century, in which the rise of a new set of capitalist interests was taking place, were in many respects a period of change and transition. In the reign of James I. a free trade movement had begun to be vocal; and as early as 1604 Sir Edwin Sandys complained in Parliament that "merchandise being the chiefest and richest of all other and of greater extent and importance than all the rest, it is against the natural right and liberty of the subjects of England to restrain it into the hands of some few. . . .

[1] H. Levy, *Economic Liberalism*, 26.

[2] Unwin, *op. cit.*, 209.

[3] "The special object of the master of a trade was to obtain the exclusive possession of the trade in question by a patent of monopoly, and to hinder by such a monopoly the growth of new undertakings or sale to other traders. . . . His aim was to make the producers whom he financed more and more dependent upon him by preventing all opportunities of their selling to any other buyer." (Levy, *op. cit.*, 23.)

The governors of these companies by their monopolizing orders have so handled the matter, as that the mass of the whole trade of the realm is in the hands of some 200 persons at the most, the rest serving for a show and reaping small benefit." It was proposed that admission to the merchant companies should be open to all on payment of an entrance fee; and it was argued that in this way wealth would be divided more equally over the whole country instead of being concentrated in the hands of a few London exporters.[1] In 1624—as a result of this agitation—a general anti-monopoly Act was passed by Parliament.

There is fair indication, however, that the real butt of this agitation was not monopolies in general, but their arbitrary bestowal by the Crown on particular individuals to the detriment of trade interests in general; and it would seem that the movement drew most of its strength from the new merchant and industrial interests who were beginning to find the monopolies of existing privileged interests irksome, and ultimately desired to strengthen their own position by extending similar privileges to themselves.[2] The attack on monopolies granted by the Crown at the instigation of courtiers could always count on popularity among provincial interests, since these were most damaged by the practice. They could with justice claim that the system of Tudor monopolies had enriched "some 200 persons at the most" in London, and that a relaxation of these restrictions would spread England's increasing wealth more evenly over the whole country. Some of these provincial interests, moreover,

[1] W. R. Scott, *Joint Stock Companies*, Vol. I, 119. They were able to point to the fact that the trade of the country, as shown in the customs returns, was divided in the proportion of £110,000 to £17,000 between London and the rest of England.

[2] Prof. Scott says, in connection with the Bills for free trade, that "it was clearly understood that they were promoted by a group of merchants" (*op. cit.*, 124). The chief opponents of the African monopoly were members of the East India Company (248).

were losing their narrow absorption with the retail trade of the local market, and were extending their activities so as to poach on the preserves of London merchants. Many of them were desiring, metaphorically if not actually, to move to the metropolis. Local drapers continually resented the attempts of the London company to engross the wholesale trade of the realm and to force provincial drapers to sell only through themselves.[1] These persons usually fell back on local privilege for their protection. But this was not so with the more progressive of them, who began to give out wool to craftsmen in the surrounding villages, and so to set up as country clothiers at the head of a local domestic wool manufacture. This was done in particular by the drapers of Shrewsbury and the linen-drapers of Chester. As clothiers they then became actively interested in the national market, and often came into conflict with London clothiers and with the claims of such bodies as the London Drapers and Clothworkers to monopolize the export of cloth.[2] A typical complaint was that against the Weavers' Act of 1555 which had restricted cloth production in the interests of the Merchant Adventurers ;[3] and in similar fashion we find local companies of Merchant Adventurers complaining bitterly against the unfair actions of the Adventurers of London.[4]

On the other hand, old established interests naturally tended to have little sympathy with the new complainings. The *nouveaux-riches* of the fifteenth century, who purchased estates and built country mansions and became the new aristocracy of the sixteenth century, were those who received the lion's share of the profits of the regulated companies which had taken on the mantle

[1] Ashley, *Early History of Eng. Woollen Indy.*, 66–7 ; Lipson, *op. cit.*, 428 ; *V.C.H.*, *Suffolk*, 2, 266.
[2] *Cf.* Unwin, *op. cit.*, 87–93, 98–9.
[3] G. W. Daniels, *Early Hist. of Cotton Indy.*, XXVII, 3
[4] M. Sellers, *loc. cit.*, I, liii.

of the Merchant Adventurers. In the seventeenth century they were, therefore, a conservative force, jealous of the commercial privileges on which their social position had been erected. In contemplative enjoyment of landed gentility, like the Flemish *otiosi* of an earlier century,[1] their manner and psychology tended to acquire a feudal tint. The Crown had a quite definite interest in monopolies as an important source of revenue. Elizabeth had rewarded the services or the flatteries of her favourites with them. She had bestowed them when her treasury would not suffice to pay the salaries of her clerks and her household. The court and the royal household were also large gainers from the system ; since theirs was a fair position to win royal favour for themselves or else to levy toll on monopoly-hunters who wished some courtly suitor to plead their case before the throne.

A division of policies, therefore, began to define itself along these lines. Starting with the monopoly agitation of 1604 it continued with the struggle concerning the authority of Parliament—the instrument of fairly wide trading and industrial interests—over taxation and over the administration. It had its echo many years later in the problem of the Hanoverian succession, and in the policy of Robert Walpole. As a result of the increasing pressure from the new interests, the first three decades of the seventeenth century saw the manner of granting monopolies change. Monopolies were not abolished, but they tended to be bestowed less arbitrarily by the Crown ; instead of showering them on favoured courtiers, the Crown tended to grant them to active undertakers ; and the grants to commercial interests tended to be supplemented and superseded by patents of monopoly to industrial interests.[2]

The controversy first crystallized around a test case in

[1] *See* above, p. 226.
[2] *Cf.* Levy, *op. cit.*, 19 ; W. H. Price, *op. cit.*, 35.

1603, when a London haberdasher was accused of infringing the playing-card monopoly of one Edward Darcy. But Bacon was able to twit the opponents of monopoly with their inconsistency, since they did not include in their condemnation the monopolies of Corporations. The intention of the movement was, in fact, made fairly clear by the direction which the attack subsequently took. The Commission which was set up under James to investigate monopoly paid most of its attention to specific abuses, such as the Duke of Buckingham's notorious "ring," in which Sir Giles Mompesson and Sir Francis Michell were associated; and against this it instituted proceedings.[1] The general Anti-monopoly Act of 1624 seems to have been aimed mostly at court favourites and specific cases, and from it were definitely exempted the "legitimate rights" of Corporations and Companies.[2] At any rate, the number of monopolies seems to have been in no wise diminished by it; and in 1640 Sir John Colepepper was able to say of them that "like the frogs of Egypt they have gotten possession of our dwelling, and we have scarcely a room free from them. They sip in our cup; they dip in our dish; they sit by our fire. We find them in the dye-vat, the washing-bowl and the powdering tub. They share with the butler in his bar. They have marked and sealed us from head to foot. They will not bate us a pin."[3]

The result of the agitation was certainly not to institute free trade, nor very probably was that its intention. At any rate, the most vehement denouncers of the system often ended by securing a share in its blessings themselves, and thereafter becoming its whole-hearted supporters. Sandys afterwards became treasurer of the Virginia Company and championed the Virginian tobacco monopoly. Thomas Horth, who opposed the Greenland

[1] W. H. Price, *op. cit.*, 25–33.

[2] *Cf.* Levy, *op. cit.*, 22–3.

[3] *Ibid.*, 25.

Company, was later in 1639 a moving spirit in the coal-shipping monopoly.[1] As for the provincial and smaller industrial interests who provided the backbone of the agitation—they seem for all practical purposes to have been left ignominiously in the lurch. But despite this there was an important constructive significance in the movement, even if the slogans inscribed on its banners were, as slogans so often are, insincere substitutes for the real objective. The outstanding feature of the change which it produced was the transition from a system of monopoly won by court intrigue for particular persons to a system of monopolies bestowed on corporations of capitalists. The power of Court influence was to be surpassed by the power of capital; the regulated company and the individual monopolist were to be supplanted by the Joint Stock Company, to which those who had the capital had the right of access.[2] Capital in manufacture was to claim a place alongside capital in foreign commerce.

If the leaders in the movement were those jealous of privilege and eager to share it, the broad base of this political tendency was set in those who had no immediate hope of sharing the blessings of the upper class, and so were brought into more acute opposition to privilege. This middle class, composed of tradesmen as distinct from merchants—a distinction which the seventeenth century was bringing into prominence—of country clothiers and master craftsmen who still retained a fair degree of independence and prosperity, tended to react violently against all that characterized the "big-wigs" of London, both their aristocratic characteristics and their commercial jobbery. They must have viewed the big interests of the East India Company much as the farmers of the Granger Movement in America viewed the railroad octopus

[1] W. R. Scott, *op. cit.*, 121, 148.
[2] Cunningham, *Growth* (Mod. Times, I), 223; Scott, *op. cit.*, Vol. I. 264, 314, 331, *seq.*, 439.

and the growing trusts of the Eastern States. They must have looked on the Goldsmiths and the Clothworkers of London with much of the enmity with which La Follette regards J. P. Morgan & Co. and the Standard Oil Company. They were democratic in spirit, fired with a passion for independence and the rights of small property. They spurned the manners and modes of the Court and gentility. They praised the life of active industry and enterprise against the luxury and ease of the passive recipient of rent and monopoly profits. And in doing so —in reacting against the feudal tendency which had begun to creep in, as it had crept in and conquered with its charm the burghers of the Italian towns four centuries before—they kept alive the flame of the capitalist spirit. By their standards, thrift, industry and enterprise, the individual effort to build the property and name of the family, the stern rationalisation of activities to adapt means to a defined end were the supreme virtues. Idleness, whether of vagrant or aristocrat, profligacy and the enjoyment of the present were the basest vices—sins against the exacting Deity, who records one's sins and virtues as a tradesman records his debits and credits in a ledger. In a word, this middle class tended to be Puritan.[1]

Though the Commonwealth went too far in Puritanism for the likings of the capitalists of London, who had in 1640 summoned it to their aid as the driving force of the revolution, its mark had been indelibly laid on English economic life, and what remained of that mark was all to the good of the newer capitalists. The old established interests had been severely shaken ; the foppish courtier

[1] *Cf.* Levy, *op. cit.*, 12–13, 48, 62–8 ; Westerfield, *Middlemen in Eng. Business*, 395 ; Troeltsch, *Protestantism and Progress*, 132–7 ; O'Brien, *Economic Effects of the Reformation*, 102, 115–6. Levy says : " The union of religious life with business was a leading thought with the Puritans " (59). In addition, of course, the yeomen farmers were an important element among the supporters of the Commonwealth.

had been made to look extremely silly; only a bigoted and unpractical idealist like James II. was likely to try again to take the policy of the realm and the control of the administration out of the hands of Parliament. The power of the royal purse was now entirely with the bankers and with Parliament: the former held the government loans; the latter voted the revenue.[1] The newer capitalist interests, having at least one finger in the industrial pie, tended to find expression through the Whigs; while the aristocracy and the older interests, such as the East India Company, tended to be Tories.[2] But that the former had never really been sincere in their early professions of Liberalism was made pretty clear by their actions after the Restoration. A first-class political issue developed in 1698 between Whig and Tory over the monopoly of East Indian trade; and it was nothing else but an undignified scramble. Many complaints had been raised against the existing Company. Some said its trade led to the export of bullion. The silk weavers complained that the Company imported Indian silk to their detriment. An elaborate pamphlet controversy was waged over the matter, in which the Whigs championed free trade. Then the contestants descended to more mundane arguments. The Company, on its side, offered to advance £700,000 to the Treasury; and in return Mr. Sam Shepherd and other Whig financiers offered to advance £2,000,000 in return for a charter transferring the East India monopoly to themselves. The two millions won the trick, and a new Whig company was formed, to rival the Tories in all the iniquities of which they had formerly been accused.[3]

In manner of life, too, the Whigs were to imitate their

[1] *Cf.* Westerfield, *op. cit.*, 404–5; Cunningham, *Growth* (Mod. Times, I), 160–1.

[2] The East India Company was originally Whig in sentiment, but changed its politics to Tory after the Restoration, largely under the influence of its Governor, Sir Josiah Child.

[3] Cawston and Keane, *op. cit.*, 115–7.

erstwhile opponents very closely. They began to purchase country estates and titles, and to convert themselves into a landed aristocracy, just as the founders of the Tory aristocracy had done in the sixteenth century; and the older gentry were quite glad to bring new blood and new money into their families by marrying their children into the new wealth. Said Defoe at this time: "How many antient estates are purchased in these two counties (Kent and Essex) by citizens and merchants of London within these few yeares past, and fine houses built upon them, equall to the palaces of some princes abroad."[1] And these Whig gentry were only too eager to show their difference from the Puritans who had once been their allies. They subscribed to the Episcopal Church as devout Protestants. They persecuted dissenters and regarded the Puritan as a common fellow "with a nasal twang,"[2] lacking the manners and graces of the gentlemanly class.

The eighteenth century as the century of Whig predominance brought with it a significant broadening of the policy of Mercantilism. The interests of manufacture were more definitely added to the interests of foreign trade. The colonies were more carefully regulated, so that they should not export articles which competed with the products of British industry. On the other hand, imports of raw materials from the colonies were given definite encouragement. It was no longer a market advantage merely for the merchant in the wares in which he trafficked that was sought: it was a market advantage at home and abroad for the individual capitalist in the goods produced by British manufactures. With the premiership of Robert Walpole this new policy found its Cæsar. "The Corn Bounty Act of 1690, which had encouraged the capitalistic landowner at the expense of the yeoman, was now

[1] *The Compleat Eng. Gentleman*, ed. Buhlbring, 263.
[2] Levy, *op. cit.*, 61–2.

supplemented by bounties on exported manufactures, which gave advantage to the merchant with the large purse over the merchant with the small,"—bounties "to enable well-grown industries to capture foreign trade."[1] A bounty encouraged the export of silk, and import duties on certain necessary dyes, as well as on hemp and timber, were abolished. The King's Speech of 1721 expressly referred to the need for securing a "favourable balance of trade" by facilitating the import of raw material and aiding the export of home manufactures; and Horace Walpole later remarked that it was to this purpose that the colonies were "the source of all our riches." They "preserve the balance of trade in our favour," he declared, adding dolefully, "for I don't know where we have it, but by means of our colonies." To this end the colonies were subjected to the most minute regulation. The manufacture of hats was prohibited, lest they should compete with the products of English hatters. Ireland was forbidden to export woollen goods, because they competed in Europe with English cloth, and three ships and eight armed cruisers watched the coast of Ireland to stop any illegal trade. Other items of colonial produce, such as sugar and tobacco, were "enumerated"—they could only be exported to England or to other colonies. In a word, Robert Walpole's policy was the charter of nascent industrial capitalism.[2] At the same time the whole military power of the State in foreign politics was brought in to do service to this new mercantilism. The militant rivalry with Holland over the carrying trade in the English Channel and the Atlantic gave way to the new colonial rivalry and to a century of armed hostility to France. It was, in fact, a prime charge against the ill-fated James II. that he made overtures to France,

[1] *Camb. Mod. Hist.*, Vol. VI, 48–9.
[2] Brisco, *Economic Policy of Robert Walpole*, 166, 185; *Camb. Mod. Hist.*, Vol. VI, 48–51; Cunningham, *op. cit.*, 393–9, 414, 457, 494.

who was becoming the great colonial rival; just as the century before Mary's greatest sin had been her alliance with the Spaniards, with whom our pirate-adventurers were fighting for the commerce of the Atlantic.

With the second phase of the Domestic System, which was the economic result in the eighteenth century of these complex changes, the separate middle class of semi-dependent small masters began to disappear. The craftsman's power to buy his own material and to market his products was narrowed with the rise of the industrial capitalist, until his dependence was well-nigh as great as that of the journeyman who had nothing but the labour of his hands to sell. With this change went another, which was pregnant with meaning for the industrial progress of the future. The division of labour, as, for instance, in the cloth trade, which the rise of the merchant undertaker had facilitated, could now be still further developed with the coming of the industrial undertaker to captain a given range of industrial operations. Before there had been generals; but the composition of the companies had been a motley disordered throng. Now there were to be captains, too, to drill and shape that motley throng with ordered details. Formerly undertakers had sought profit in wider markets abroad. Now they were to turn back upon the production of the goods in which they had previously traded, and to find profit in reorganizing and disciplining industrial processes to an ever higher pitch of efficiency.

As a result of this we have, in the eighteenth century Domestic System or Putting-Out System, a complete development of capitalist production, with the sole exception that the workers were not gathered into a single factory to work under the eye of the employer's overseer. The master-worker owned his tools—his loom or his knitting frame; but that was all; and frequently he did not own even that. But this small difference of system had two very considerable economic results. It prevented the division of labour being carried beyond a certain point: there could be no intricate subdivision of a process among many hands under the organizing genius of an employer. It also involved an indirect relation between employer and employed through the medium of the small master ; and this latter type of person tended to have the intense conservatism of the peasant, and to be very jealous of the small modicum of independence that he still possessed. Sometimes, too, when fallen on hard times, he was inclined to be the worst sweater of any, like the notorious wraith of him that appeared in the "butty" contractor of the next century. The Industrial Revolution, therefore, ushered in by the inventions of power machinery, merely rounded and completed this series of changes which had preceded it. It was not the beginning of modern capitalism, nor was it the unprecedented change which recent emphasis on it by historians has inclined one to suppose. The most considerable change was in its wider social implications rather than in the change of purely economic form, which was small. In laying the basis of a definite proletariat, who, in Marx's trenchant phrase, had "only their chains to lose" ; as a huge liberating force to the capitalist spirit, opening up new possibilities for undertaking which did not exist before ; and in accelerating enormously the *tempo* of industrial progress, its influence was iconoclastic and rejuvenating throughout the whole realm of social life and social institutions.

An example of how closely this eighteenth-century domestic system could approach in form to actual factory industry is well provided by some manufactories in the iron industry. Of these one of the most important was started at the end of the seventeenth century on the banks of the Derwent by a certain Ambrose Crowley, who was formerly an ironmonger at Greenwich. His enterprise seems, in fact, to have started the industrialization of Durham, a county which had previously been of considerable beauty and of scanty population. In what had previously been a small village Crowley planted a thriving industrial town of 1,500 inhabitants, and proceeded to organize the manufacture of nails, locks, bolts, chisels, spades and other steel tools. The houses were apparently owned by Crowley, and the materials and the tools were advanced to the workmen by him after the former had deposited "a bond for a considerable amount." This deposit gave the right to hold a workshop and be a master-workman labouring with his own family and employing in turn a hired journeyman or two and an apprentice. The place of work was the master-workman's shop, and payment was made to him by the piece for the work done, after the price of the materials which had been supplied to him had been deducted. Crowley's enterprise, moreover, extended to many things, and it is interesting to notice how he anticipated the modern Whitley Council. After a period of disorder he instituted a special tribunal to settle grievances and to enforce his code of rules and orders. On this tribunal sat two arbitrators appointed by Crowley and two by the master-workmen, dignity being lent to the body by the presence of the chaplain as impartial chairman; and it is interesting to notice that a condition of appointment to the tribunal was to swear allegiance to the laws of the factory which Crowley had ordained. Knighted in 1706, Sir Ambrose Crowley later became M.P. for Andover, and by that time he possessed a fortune of £200,000. On his death the business passed to his son, John Ambrose, and in 1781 to his grand-daughter. But "by 1827 the works had lost their characteristics, the usual fight between capital and labour had begun." The psychology of the workmen had changed with the changed economic relationship, and "Crowley's Crew," once staunch Tories, ultimately became Chartists.[1]

Very similar organization probably existed in the sword manufactory at Newcastle, and at the famous Carron Iron Works.[2] At any rate, it is clear that the new industries which the eighteenth century developed, such as gun-making at Birmingham and the manufacture of glass and of paper, were organized from the first on an advanced capitalist basis.[3] In the textile industries the system varied. Sir T. Lombe in 1719 had a silk mill at Derby, and by his death had accumulated £120,000.[4] The domestic workers employed in framework knitting worked on looms owned by the capitalists.[5] In the middle of the century at Farres in Scotland a Captain Urquhart had founded a colony of linen weavers, similar to Crowley's town, building each family a house at his own expense, and supplying them with a loom;[6] and at Newark in Nottinghamshire a firm of clothiers built cottages for about a hundred weavers, filled them with looms, and leased them to their employees.[7] In the cloth industry of the West Country strikes and riots of master-weavers and journeymen alike against the capitalist clothiers were beginning to be common;[8] and in Lancashire in 1756 the master-weavers, together with their journeymen and apprentices, began to organize against their employers. Their chief complaint seems to have been that the master-manufacturers neglected the apprenticeship regulations and took apprentices as well as the weavers, with a resultant heightening of competition and lowering of wages. The weavers likened themselves

[1] *V.C.H. Durham*, 2, 381–7.
[2] Scrivenor, *Hist. of the Iron Trade*, 75 *seq.*
[3] Cunningham, *op. cit.*, 518.
[4] H. T. Wood, *Industl. Engd. in Eighteenth Century*, 67–8.
[5] Cunningham, *op. cit.*, 513.
[6] S. J. Chapman, *Lancs. Cotton Indy.*, 23.
[7] Usher, *Introdn.*, 348.
[8] Lipson, *Hist. of Woollen and Worsted*, 122–4.

to Nazarenes and their enemies to Jews; but, in spite of their Biblical analogy, they were hailed before Lord Mansfield at the Spring Assizes at Manchester in 1759; and the learned judge, in passing judgment on them, read them a homily on the evil of being led astray by designing men to raise their wages by combination and so to drive capital away. The apprenticeship regulations which they had suggested were ungodly, and he advised them to "go home and sin no more lest a worse thing happen unto you."[1]

In all these cases the small master had sunk to the level of the ordinary worker; his dependence was almost as great as that of the journeyman; his payment was little other than a piece-wage. Nevertheless, he still cherished a sense of independence, clinging lovingly to the few tokens of his former status that he still possessed. Although he might organize and revolt, his mind was essentially conservative and he harped back always to the privileges and restrictions of the past. But although this dependence was typical of some of the most advanced industries, and was the general tendency, it was by no means universal; and our generalization about the eighteenth-century domestic system must not be misused. In Lancashire the actual situation is not drawn in clean and simple lines. Alongside the dependent weavers employed by merchant manufacturers there existed—at any rate till about 1760—numerous weavers who possessed a fair degree of independence, buying their cotton from chapmen and selling it to traders in the Manchester market. Manchester was a new centre, and there seems to have been no close monopoly of cotton merchants there, as there had been in the wool trade. "The weaver who obtained his materials from the Chethams or Mosleys might, if their terms were better, have got credit from the Irish yarn dealers or other

[1] G. W. Daniels, *op. cit.*, 42–52.

'foreigners' who visited the Manchester market."[1] The backbone of these more independent weavers seems to have been the small yeomen farmers, who had property of their own and were in a position to trade on their own account in the cloth at which they worked half-time. Those whom they employed seem, on the other hand, to have been mostly rural labourers, who were glad to earn extra wages at weaving in their spare time, but had not as a rule the means to set up as masters themselves. The division between the dependent and the independent craftsman seems, therefore, to have been in large part the difference between landed and landless, the latter being "at all times sufferers from the impossibility of supplying themselves with materials for their labour."[2]

In the Yorkshire wool industry, again, the craftsman retained a fair degree of independence, trading himself in his wool and his cloth. The weavers appear to have relied on local markets very largely; and competition among middlemen-dealers, from whom they could buy their wool, seems to have been fairly free. Cunningham suggests that one of the reasons for the continuance of this semi-independence was "because the little grass farmers round Leeds who worked as weavers were able to rely to some extent on local supplies," whereas in other areas the weavers had no free access to supplies, and had to rely on a capitalist clothier.[3] The traditions of classless

[1] Daniels, *op. cit.*, XXV (Introd. by G. Unwin); Chapman, *op. cit.*, 9–12; *V.C.H.*, *Lancs.*, 2, 382–3.

[2] Gaskell, *The Manufacturing Population*, 37.

[3] Cunningham, *op. cit.*, 506. *Cf.* the remarks of Schmoller on this point: "Quand les travailleurs à domicile jouent eux-mêmes le rôle d'entrepreneur, ont eventuellement d'autres ressources, peuvent vendre eux-mêmes leur travail ou leurs marchandises . . . leur situation est en tout cas meilleure encore que quand leur dispersion sur le territoire, leur ignorance du marché, leur incapacité pour tout autre travail les mettent absolument dans la dépendance du marchand. . Quand ils ont encore des outils, leur appartenant en propre, qu'ils achètent la matière première et vendent le produit tout fait, leur

individualism, in fact, seem to have survived here to a remarkable extent. There were few restrictions on journeymen becoming masters, and there was almost perfect accord between master-weavers and their men, the masters priding themselves on retaining their workers in bad times instead of dismissing them; and when the new factory industry threatened its competition, many of the master-weavers commenced to organize mills on their own by co-operating to provide the capital.[1]

But the new industrial undertakers who were re-organizing industrial processes and eliminating the small master were not in the main the Whigs who secured the Hanoverian succession and pocketed political sinecures in London. They were more often the provincial capitalists, and not seldom the tradesman and the despised Puritan. The Whigs themselves had begun to taste of the fruits of aristocracy and to partake of the joys and the decadent vices of the Court of the Hanoverians. The new interests of the seventeenth century, clamouring for freedom and protection, had become by 1750 old-established interests, jealous of further change. By the close of the Napoleonic Wars the difference between Whig and Tory had practically vanished. The new forces which were liberated by the Industrial Revolution were to be hostile to them both.

situation est naturellement meilleure et plus indépendante." (*Principes d'Economie Politique*, II, 511–2.)

[1] Lipson, *Hist. of Eng. Wool and Worsted Indys.*, 71–8, 177; Westerfield, *op. cit.*, 284–7.

CHAPTER TWENTY

THE NINETEENTH CENTURY

THE fact that the changes which have been described as the Industrial Revolution came first in England is not merely an inexplicable chance of human inventiveness. There existed circumstances, traced in the preceding chapters, which made England a country singularly ripe for such a change; whereas in other countries there were circumstances which rendered such a change at that time premature.[1] In England feudalism as an institution of land tenure had been swept away several centuries before; as a system of relationships and ideas and manner of life its force was almost spent. The capitalist spirit was mature, capital accumulation had reached a high stage of development, and there was in existence a class of industrial undertakers, active, buoyant and confident. A strong centralized administration had raised the national market at London to predominance and had forged wide markets overseas. The conservative traditions of the independent craftsman, his immobility and his resistance to large-scale control of productive operations, were fast disappearing, and in his place there was to hand an ever-swelling host of obedient and pliant dependent proletarians.

[1] Prof. Ogburn has propounded the theory that the occurrence of inventions is fairly rigidly determined by the stage of material culture —economic organizations and institutions, technique, etc.—which has been reached; and in support of this hypothesis he has adduced a list of 148 leading inventions, which were discovered almost simultaneously by two or more different persons in different places. (*Social Change*, 90–102.)

In other countries the composition of elements was not so fortunate. In Germany, as we have already noticed,[1] feudalism secured a partial triumph in the sixteenth century. German economic life was organized, not on a national basis, as in Flanders and England, but on the basis of the principality, with the prince and feudal institutions in the ascendancy. Though a certain amount of domestic industry appeared, organized by merchant undertakers, the former prowess of the German merchant class died away, the riches of the towns were sapped by the devastation of the Thirty Years' War, and the capitalist spirit decayed and was lost. The German towns in the seventeenth century were merely dependent towns of Dutch or English financiers, ruled by Dutch business managers or fettered to English creditors.[2] In the eighteenth century Frederick the Great had endeavoured to end this by following the example of the English mercantilists and of Colbert. He tried to introduce a centralizing tendency into the disintegration of German social life, and to stimulate by protection the growth of capitalist industry. But his attempt met with only very partial success; for, when the seed is absent, the best of gardeners in the best ordered of hot-houses will not avail to show fruit. The silk industry flourished a little around Berlin; but on the whole what there was of German capitalism had to rely for its active spirit on foreign undertakers—on Jews and Frenchmen, like the Mendelssohns, the Friedländers, the Veits and the Marcuses.[3] In Prussia in 1816 73·5 per cent. of the population were rural; no force had swept away the hampering restrictions of local gilds; and "urban life was mediæval and in many places less vigorous than it had been in the days of Dürer and Hans Sachs. The glory of Augsburg

[1] *Above*, pp. 217–8. For the prerequisites of "la grande industrie" *cf.* Schmoller, *Principes*, II, 521–5.
[2] Schmoller, *Mercantile System*, 74. [3] *Ibid.*, 86–9.

and Nuremburg were in the past."[1] Even by 1848 the new middle class were too weak to assert its position against princes and squirearchy; and industrial undertaking could not develop until Bismarck, the militarist Junker of Prussia, had unified and modernized North Germany, and had granted certain concessions to the Liberals for their support.

In France the merchant class had had no signal victory over feudalism as it had had in England, and the strands of mediævalism still showed prominently in the texture of French social life until the liberation of 1789. France had not remained a disunity of principalities as had Germany, it is true. She had achieved national unification under Charles VII. and Louis XI., like a true modern state, and her merchant corporations of the Seine and Loire were at this period both rich and strong. But the Crown was not so impoverished as it was in England by the fifteenth century. It had an independent source of regular money revenue in the *taille;* and it had not, in consequence, to rely so implicitly on those who could provide coined money for the royal treasury. Neither were the feudal nobility so penurious as their English brethren; there was no need for yielding precedence to a growing money power that was their creditor. There was, in fact, a nice balance of strength between the Crown, feudalism and the merchant corporations, and this balance the Crown strove to preserve. Charles VII. fostered the trading classes and offended the *noblesse* by drawing men of the new class, such as Jacques Cœur, the banker of Lyons, into his counsels and into the administration. But at the same time as this was done the Crown contrived to bring the merchant corporations strictly under its own control, in some cases appointing royal representatives to the governing body.[2] There was

[1] J. H. Clapham, *Econ. Developt. of Fr. and Germy.*, 82.
[2] Cunningham, *West. Civiln.*, 154–7.

little commercializing of the nobility as in England; the Crown did not become bourgeois. Feudalism remained supreme, and the Crown and the Court merely took under its wing and absorbed the upper rank of merchants and bankers. Undertaking was made subservient to feudal and royal needs, not *vice versa*.[1]

Later ministers of the Crown sought to stimulate French undertaking so that it should rival English commercial prowess on the oceans of the world, and Richelieu formed foreign trading companies on the pattern of the English and Dutch. But in spite of the centralizing process of Charles VII. a national market had scarcely developed in France. The merchant class was still, in the main, concerned with the local market of this or that town, as they were fairly generally over Europe until well into the nineteenth century;[2] or else they were absorbed in banking and in speculation. As a result, few could be found to supply the active enterprise in these ventures. They would supply the money—after some persuasion; that was all. French colonial ventures were inferior to the English, largely because they lacked capital and enterprising leaders, and because of inefficient administration and the ubiquity of sinecures for court favourites.[3] Colbert, in the seventeenth century, fought vigorously against the provincialism of French commercial life. "Our merchants," he complained, "have not the capacity to take up any matter with which they are unacquainted." Feudal habits, and the desire to escape from the vulgar taint of commerce to a respectable official career had sapped the capitalist spirit from them.[4] Many of the more virile industrial elements had been crushed by the

[1] An instance of this was the kind of manufacture which royal patronage encouraged. It was the manufacture of luxuries to meet the needs of the court and the nobility—cloth-of-gold, glass, silk and tapestry. (*Ibid.*, 208).

[2] Schmoller, *op. cit.*, 495.

[3] Cunningham, *West. Civiln.*, 211.

[4] Sombart, *op. cit.*, 138–9.

expulsion of the Huguenots; an event which had an effect not dissimilar, perhaps, to that which would have been produced by the expulsion of the Puritans from England. Taxation was inimical to the accumulation of capital; and the industries which thrived were not as a rule those which sought a wide market abroad, but those which manufactured costly luxuries for the Court.[1] Colbert sought to encourage industry and commerce by patents and monopolies, as did Elizabeth and James of England. But in France there was this important difference. The stage of monopolies by Court influence was not superseded, as it was in England, but persisted; and many of the monopolies were granted to feudal nobles who treated them as hereditary feudal enterprises. Colbert's system certainly paved the way for capitalist undertaking, and was more successful than the attempts of Frederick in Prussia. His monopolies helped to create a class of industrial undertakers and to destroy the independence of the local artisan and trader.[2] But at the same time, the character of the system tended to enthrone a hereditary caste of privileged monopolists, half-capitalist, half-feudal, interested, not in new developments, but in old restrictions, and separated rigidly from other more active sections of the commercial class. For, where economic advantage was purchased by feudal and court influence and not by power of capital alone, it was natural that capitalist undertaking should be hampered in its development. Moreover, many of the characteristics of serfdom still persisted in the eighteenth century and a proletariat only existed in a few towns, and then was relatively small. So great, indeed, had been the shortage of wage-earners in Colbert's time that a memoir on the Navy in 1669 had to stress the need for re-establishing slave crews "both by procuring the con-

[1] Cunningham, *op. cit.*, 214, 217; Marshall, *Industry and Trade*, 110–11.
[2] G. Martin, *La Grande Industrie en France*, 243–6, 257.

demnation to the galleys of as many criminals as possible, and . . . by buying slaves in Malta and by making descents and raids on Barbary and Guinea."[1]

The inventions in the textile industry, in the making of iron and in power machinery fell, therefore, in England on very kindly soil; and they completed the process which had been progressing steadily for three centuries of reducing the independent craftsman to a dependent wage-earner and bringing his productive operations under the control of a capitalist undertaker. In the first place, the independent craftsman could no longer hold his own against his capitalist competitor; and the average wage-earner, when the new system was established, would find it more difficult to raise the capital to institute a factory than he had done to purchase apprenticeship, mastership, and a house and loom. "None but wealthy men were able to purchase expensive plant, and to run the risks of setting it up. The invention of mechanical appliances for the textile trades gave a still greater advantage to the rich employer, as compared with the domestic weaver, since only substantial men could afford to employ machines."[2]

Second, the invention of power machinery sounded the knell of scattered domestic production in villages. It required the concentration of the producers in factories where the power could be utilized, and of the factories in localities where the power could be easily procured. This arrival of factories now made possible and, in fact, made necessary, the disciplining of the workers and the sub-division of the labour of each process according to a general plan. The machinery demanded a discipline to its own stern requirements; and its potentialities were only fully revealed under a specialization of each part of the machine process. Adam Smith's pin factory was

[1] Sargent, *Economic Policy of Colbert*, 38.
[2] Cunningham, *Growth* (Modern Times, II), 614.

only possible with the concentration of workers under one roof, their several efforts co-ordinated with care by an overseer. Inventions of new methods of specialization, succeeding inventions in technique, opened up an almost infinite possibility of new groupings of workers inside a factory, and later of factories into larger units of administrative control. For the better part of a century the undertaker was to find ample field for his enterprise in developing the efficiency of the machine process in this way. For the time being he could allow markets abroad to care for themselves.

These changes, however, in themselves not so amazing or considerable, gave rise to further needs of a wider and more revolutionary nature. First, there was the need for a free and mobile supply of wage-earners, unhampered by any elements of independence which would render them refractory and conservative. Industry could no longer go out into the villages where craftsmen were to be found. It had to be localized near its power, and to draw labour to it from the rest of the country like a magnet. Only if that labour had no other opportunities of livelihood, and had divested itself of the habits of independence, was it likely to answer the magnet and be drawn to the new factory centres. Chiefly for this reason the new undertakers had less use for the local regulations devised in the interests of the local market than had the undertakers of the previous century. They wished to be rid of tolls and dues and other obstructions to internal commerce, from apprenticeship regulations and the Act of Settlement which sent unemployed labourers back to the parish of their birth. Further, they desired to be free from subjection to the London market. The national market had been created in the Tudor period by the elevation of London to predominance : markets in provincial towns were attached to it by numerous threads, so that it was the centre of an extensive circle. Cotton, being a comparatively new manufacture, seems to have been spared this subjection to the metropolis, and the Manchester and Liverpool markets were apparently always fairly free. Foreign merchants came to Liverpool and Manchester to make their own purchases for export, and haberdashers of London and other towns often bought direct from the small Lancashire towns.[1] The new undertakers wished to have a national market unfettered by the monopoly privileges of close corporations. They did not want to toe the line to the monopolist power of wealthy exporters. They wanted to connect the towns of England to themselves with as many threads as linked those towns with London or anywhere else. The manufacturers of Lancashire desired merchants from abroad and all over England to have free access to the cotton markets of Manchester and Liverpool; abundant competition among buyers meant good prices for yarn and cloth. And in their turn it was to the benefit of the commercial interests of Manchester to have unrestricted access to markets throughout the country and throughout the world.

The whole circumstance of their position, therefore, placed the new interests in violent opposition to the old system of monopoly and to the old-established interests, whether Whig or Tory. In addition, the new movement was composed of numerous and relatively small capitalists, and was for that reason likely to be democratic. There was little tradition of combination of interests and of monopoly in Lancashire, and there appears to have been no existing corporation which could have formed the nucleus of a new monopolistic body. The majority of the new men, moreover, had little political influence, and would have stood small chance of securing monopoly privileges through the exercise of political power. For all

[1] Chapman, *op. cit.*, 4, 6.

these reasons it was very unlikely that the cotton capitalists would follow the example of the Whigs of the seventeenth century, and seek to share commercial privilege instead of to abolish it.

In consequence, the new movement found itself in sharp antagonism to monopoly and to the whole of the mercantilist system of State protection. The new industrialists were opposed to aristocracy, whether Whig or Tory, and held in honour, as the Puritans had done, the life of thrift and active enterprise and "self-help." They were amply satisfied with the advantage which capital could give them, without desiring legal privilege as well. Legal monopoly is a two-edged tool, and in their case it was more likely to limit the advantage which capital could secure and to hamper them in taking the quite peculiar opportunities of acquisition which were offered to them. The difficulty which the poor man had of raising capital to buy machinery and of facing the risks of an unknown market sufficed to set a definite limit to the intrusion of new rivals on their preserves; and this fact alone placed existing undertakers in a partially protected position. But even if this were not so, they had little to fear. There were such abundant possibilities of expansion—expansion of markets and economies of organization and technique—that golden chances of profit were assured to those who knew the industry, however great might be the flow of new undertakers into the ranks. The opportunities for undertaking showed fair to increase faster than any probable increase of the supply of undertakers. Moreover, his very worth as an undertaker made the new man favour freedom. It is, as a rule, when he looks behind him that the undertaker grows fearful and hankers for protection; whereas the essence of the capitalist spirit is to look, not at the present or the past, but to the future. The undertaker in his prime is as heedless of the danger that rivals may outstrip him as he is of the plight of the vanquished hand-loom weaver or the cries of the blue-eyed children that bend their backs in his mill or mine.

The Liberal spirit had the quality which summons admiration because it was something fresh and virile and strong. But the vigour and confidence of its iconoclasm was greater in England than it was some decades later in other lands. The new industrial capitalists of Manchester were not only a party of economic freedom and economic Liberalism at home; they were also the missionaries of extreme Free Trade in foreign intercourse and of Cobdenite internationalism. This was due to several circumstances which rendered their sympathies quite alien to the old ideas of self-sufficiency and colonialism. First, they relied on drawing their raw material from a foreign country—from America. The interruption of supply which the hostilities of 1812 had occasioned was a graphic object lesson of the dangers of colonial and commercial wars. The doctrine of self-sufficiency ran counter to Lancashire interests here.[1] Further, they had no desire to confine their markets to colonies, and to be hampered in foreign countries by protective regulations and retaliatory prohibitions. To European countries, in fact, they looked for easy markets of great promise; and it was natural that they should see the need to win these markets by friendship and reciprocity, instead of destroying them by exclusion and militant hostility. It was natural that they should realize to the full the superiority of the maxim that a merchant profits from the prosperity of his customers over the older wish to increase one's wealth by beggaring one's neighbour.[2] Moreover, in

[1] The wool industry, too, began after 1800 to place considerable reliance on foreign wools (*cf.* Cunningham, *op. cit.*, 643–4).

[2] *Cf.* "Manchester, who knows well her own business, looks closely after her interests, but she knows that to make them sure she must also have some thought for the material or moral needs of her customers. She has learned by experience that a Roumania freed from the yoke

general, the industrial undertakers had many times more to gain in the admission of their goods to foreign markets than they stood to lose by the competition of foreign goods at home. England was half a century ahead of all other countries in her industry. Her goods could hold the market everywhere, and the cotton interests, at any rate, had little competition to fear.

The fashion of the origin of its industry predisposed Lancashire to Free Trade and *laissez-faire* views. The freedom which existed here for capital and enterprise to take control of production and to find a market for its products was undoubtedly a chief factor in the triumph of the new inventions. Precisely where the bonds of mercantilism were weakest the new industrialism was to arise. Very largely, too, it was a new type of capitalist altogether that carried the venture to success, and his learning had been in a different school. In many cases, in fact, it was these new men who proved themselves best fitted for adaptation to the new methods and new ideas, and least trammelled by old conventions. It was not the Whig monopolist or the capitalist of the late domestic system who was, as a rule, the pioneer of factory industry, although later these came in and shared in its development. The new men were often yeoman farmers, tradesmen, or master-craftsmen of various kinds—clock-makers, hatters, shoemakers and weavers.[1] The status of the yeoman farmer had been declining for some time and was threatened by the enclosure movement; and his eyes

of oppression, where the Christian can henceforth extend in peace his corn lands and sink deeper his petroleum wells, will certainly have a greater purchasing power than the wretched Danubian provinces of the Turkish Empire. She is convinced that the Bulgarian saved from massacre by her grand old Liberalism will become a better customer according as he becomes more civilized." (M. Bérard, *Brit. Imperialism and Commercial Supremacy*, 180.) *Cf. also* Brailsford, *War of Steel and Gold*, 66 *seq*.

[1] Cunningham, *op. cit.*, 619; Gaskell, *Artisans and Machy.*, 32–3, 94–5; Radcliffe, *Origin of Manufacturing*, 9–10; Chapman, *op. cit.*, 24–5; Marx, *op. cit.*, 774.

were, therefore, open for new opportunities of livelihood. For some time, perhaps, he had spent part of his time as a master-weaver, and so had some acquaintance with manufacture; and when the new inventions arrived he was in a good position to utilize them, having land which he could mortgage and thereby raise the capital. Many of the new names of the early nineteenth century are numbered among this class, such as Peel, Fielden, Strutt, Wedgwood, Wilkinson, Darby, Crawshay, Radcliffe.[1] The tradesman and the master-weaver or the cloth-maker could also become undertakers without great difficulty; they had probably some small capital to hand, and possessed some local influence and market connections.

On the other hand, there must be no undue exaggeration of the extent to which the new capitalists were created by a spontaneous raising of the meek and lowly. The average journeyman and wage-earner had scarcely a chance in five thousand of advancement in this way. A few certainly did rise, but they were quite the exception—exceptions usually accountable for by some unusual piece of good fortune. Of those who did rise the bulk were the more gifted, enterprising or more fortunate among those who had still retained their independence as small property-owners. Even so, what these gained in energy and persistence they often lost in the difficulty of acquiring sufficient capital for their enterprises. The rise of new men was a result, and a quite natural result, of a rate of expansion which was surprisingly great, and which gave quick profits and abundance of incentive and opportunities for the adventurous man of small means. In other industries and other parts of the country where the rate of expansion was not so phenomenal and the conditions not so favourable this feature was absent. In the West Riding of Yorkshire the new factory owners seem mostly to have been drawn from the class of capitalist

[1] *Cf.* J. and B. Hammond, *The Town Labourer*, 8.

merchants,[1] and the master-weavers contented themselves with running mills by a kind of co-operation. In the iron and machinery industry the man of small means seems to have met with exceptional difficulties, and to have found it hard to raise capital by borrowing. Boulton, in fact, wrote to one Peter Bottom, who asked him to take his brother as apprentice, as follows :—" I do not think it an eligible plan for your brother, as it is not a scheme of business that will admit of a mediocrity of fortune to be employed in it. It even requires more than is sufficient for a considerable merchant, so that a person bred in it must either be a working journeyman in it, or he must be possessed of a very large fortune."[2]

The circumstances under which these new men rose can be appreciated, perhaps, after a glance at a sample of the " men of invention and industry " whose names were immortalized by Samuel Smiles. Few of these were cotton capitalists and many were primarily inventors rather than undertakers, but their history is similar to that of many of the new men of Lancashire. Of the twenty-eight successful inventors and undertakers of which Samuel Smiles has given precise details in his two principal books,[3] eight appear to have originated in the working class, fourteen came from the class of small property-owners or lower middle-class farmers, master-weavers, shoemakers, schoolmasters, etc., and six had the advantage of quite prosperous middle-class circumstances. Of the eight from among the twenty-eight who became capitalists of any importance, only one, Neilson, was of

[1] Cunningham, *op. cit.*, 618.

[2] J. Lord, *Capital and Steam-Power*, 91 ; *also* 108.

[3] *Men of Invention and Industry* and *Industrial Biography*. The estimate can only be regarded as approximate since the author does not always state with precise clearness the actual origin of his heroes. Circumstantial evidence has therefore had to be relied on to decide whether the term " hand-loom weaver " means master-weaver or journeyman, and some omissions have had to be made. As a rule, however, the benefit of the doubt has been given on the side of " self-help."

the first category, and "he had to part with two-thirds of the profits of his invention (to partners) to secure the capital and influence necessary to bring it into general use."[1] The other seven were men who had been schooled in the lower middle or middle class.

The workmen of whom Smiles writes did not, as a rule, exhibit any startling achievements. Henry Cort died in poverty, and his invention was adopted by Richard Crawshay, thereby showing, as Smiles adds, that "as respecting mere money-making, shrewdness is more potent than invention, and business faculty than manufacturing skill."[2] Joseph Clement, by dint of hard work and saving, secured employment in London, was promoted to the post of superintendent, and died as the master of a small workshop of 30 men. Fox was the son of a butler, who had the good fortune to interest his father's employer in his inventions and so to secure the capital with which to start a small business. Murray, who was apprenticed to a blacksmith, secured employment in a Leeds engineering firm. There, in reward for improvements he had suggested, he was promoted to be senior mechanic, and later joined with some partners in a small machine factory in that town. Richard Robert became the mechanical partner in a firm of which a Mr. Sharp supplied the capital; and Koenig, the son of a German peasant who attended the University, came to England and borrowed money to start a printing business, but failed, left England, and died poor.

The most interesting story of them all is, perhaps, that of Bianconi. Moreover, we find in him the true resource of the undertaker. The son of villagers in Lombardy, he was apprenticed to an itinerant print-seller, bound for Ireland. On the death of his master, Bianconi set up business on his own with a little money which his father had given to him, and then later procured a shop in

[1] Smiles, *Industl. Biography*, 159. [2] *Ibid.*, 114.

Waterford as a carver. But he was a resourceful man, imbued with the spirit of "self-help"; and at a time when the price of gold was at a premium, he took advantage of the fact to buy guineas from the peasants, who were in ignorance of the state of the gold market. The gains secured in this way provided the capital for him to start a two-wheeled car service for the benefit of farmers and peasants in the villages, who could not afford the more luxurious and expensive coaches. Even so, his enterprise was hampered for lack of capital, until fortune and his own shrewd wit favoured him again. This time fortune appeared in the guise of an election in the town of Waterford. After Bianconi had agreed to lease his cars to one of the contesting parties, the opposing party made him a better offer for the loan of these valuable conveyances. Previous contract was no bar to our enterprising hero. He proceeded to withdraw the cars from his erstwhile clients on the plea that they had suffered mud and damage in the political turmoil; and having done this, lent them straightway to the rival party. The result was a victory at the polls for the latter and the bestowal of a gift of £1,000 on Bianconi, in abundant gratitude for his service. Henceforth he was no longer short of capital. In fact, "he was able to command the market both for horses and fodder"; and he died a respected and a prosperous man.[1]

Industrial undertaking of the nineteenth century, therefore, seems to have been born of the mating of Lancashire economic freedom with the child of monopoly and mercantilism. It is true, as the champions of the new class were so insistent in proclaiming, that the new

[1] Smiles, *Men of Invention and Industry*, 208. Of the Engineers quoted in Smiles' *Lives of the Engineers*, Stephenson, Metcalf and Telford came from the working class; Edwards, Smeaton, Brindley and Rennie were sons of farmers or squires. The rest, five in number, came from the upper and middle classes.

freedom for capital made this development possible. This freedom released the springs of enterprise and gave leash to the pioneers. But at the same time one must remember that the new enterprise would have soon spent itself and the pioneers would have lacked support and a following, had not there existed already an established moneyed class with capital at their command, ready to aid the new developments, either as active undertakers themselves, or by advancing their capital to the new men. To the difficulty which these new men experienced of finding capital we have already referred ; and without the help of the already prosperous, the expansion of Lancashire would probably not have progressed far. Radcliffe, one of the most prominent of the new undertakers, could not get a start until he had taken into partnership a Scottish merchant who traded with Frankfurt and Leipzig, and so had both capital and connection ; and even he " came to grief in his later years and was dependent on the capital of others."[1] Much of the financing, therefore, of the cotton manufacture came from merchant interests. " The merchant who imported cotton enabled the young manufacturer to set up for himself by giving him three months' credit, while the exporting merchant rendered similar assistance by paying for the manufacturer's output week by week. It was in this way, by a flow of capital inward from commerce, that most of the early industrial enterprises of Lancashire got started and the immense expansion of the cotton industry was rendered possible."[2] Quite often, too, merchants invested in manufacture and became industrial undertakers. Nathan Meyer Rothschild, trading between Manchester, Frankfurt and the East, secured £20,000 from his father and combined the profits of supplying raw materials, of manufacturing and of dyeing. In less than ten years he had

[1] Daniels, *op. cit.*, xxx (Intro. by G. Unwin). [2] *Ibid.*

trebled his original capital, and he then withdrew his capital to the London money market.[1]

Again, the new industry could never have succeeded unless there had existed a mobile supply of dependent wage-earners, devoid of any better opportunities but to labour in the factories at a low wage, which the economic developments of the previous four centuries had created. This was where the English undertaker gained over the French and the German. It is a commonplace that the enclosures, which were occurring on a large scale at this period, swelled considerably the ranks of the dependent workers in the towns, severing them from the last remains of independence which their holding of land or rights of common gave them. Miserable immigrants from Ireland at this period, too, flocked into Lancashire, and this surplus of labour depressed wages to a brutally low level and so gave to the early employers a considerable extra advantage in this respect.[2] The shortage of houses in the new industrial areas made the workers' position under the new economic freedom still more dependent and servile ; for, the masters had to build cottages for their employees around the factory, and in owning their homes they united the power of landlord and employer, as happens in many American mining towns to-day, and in certain areas of British agriculture. "Cottages," says Gaskell, who wrote in 1836, "were generally the property of the mill-owner, and the occupants were universally his dependents. Their dependence was in many cases of the most absolute kind ; no power ever enjoyed by the feudal lord was so operative. . . . Around many mills a fixed population had arisen, which is as much a part and parcel of the property of the master as his machinery. . . . Little colonies are formed under the absolute government of the employer." Combined with

[1] *Ibid.*, xxx, xxxi. [2] Gaskell, *op. cit.*, 34.

this often went the "truck system," which carried "power a step beyond the oppression of the warlike baron or the Russian noble over his serfs."[1] It is small wonder that "self-help" came easily to the new men of the cotton industry.

[1] *Ibid.*, 294, 297.

CHAPTER TWENTY-ONE

An Unfinished Page

It has now become fashionable to regard Victorian England with a gentle derision ; and the clever among us do not tire of caricaturing the pomposity—perhaps, even, the hypocrisy—of Gladstone's generation, with its deep-rooted instincts of property and the family, with its miserliness and stuffy prudery so reminiscent of the Puritans, joined with that strange love of florid decoration which found its apotheosis in the Memorial to the Prince Consort. Nevertheless, those generations of the nineteenth century had much of which to be justly proud ; for, by the economic Liberalism which they cherished most of the foundations of modern social life were laid. A new Poor Law, a revised municipal administration, the abolition of Mercantilism and the triumph of Free Trade —with measures such as these the new spirit of the reformed House of Commons slammed the door inexorably on Stuart and Hanoverian England. In foreign affairs there was no less of a change. The new Liberal spirit of Cobden speedily conquered. The colonies were regarded rather as encumbrances than as valuable acquisitions ; and so much had "a new view of regarding colonial relations become popular," that Disraeli was moved to denounce "the attempt of Liberalism to effect the disintegration of the British Empire." "Those subtle views," as he called them, "were adopted under the plausible view of granting self-government."[1] Colonial

[1] Egerton, *Short Hist. of Brit. Colonial Policy*, 369 and 361 ; *also cf.* A. Viallate, *Econ. Imperialism and International Relations*, 7 ; C. A. Bodelsen, *Studies in Mid-Victorian Imperialism.*

garrisons were withdrawn, liberal grants of self-government were made, the Sudan and the Transvaal were evacuated, and an era of comparative peace dawned upon Europe. In the industrial sphere change succeeded change with unprecedented rapidity. The progress in technique was only surpassed by the progress in industrial organization, in inventions of new methods of specializing and co-ordinating processes, and of extending this specialization to the work of administration. It was a period of fluidity, when there were few fetters on the continual regrouping of producing groups so as to take full advantage of the economies of production and transport, when there were few barriers to impede the principle of measurement and calculation through the medium of money. This principle became the supreme regulative force of our economic life ; and this plumb-line of economic efficiency received its first complete chance. When progress everywhere scented the air, it was not hard for imagination to soar to prospect in new realms of enterprise ; and the continual widening of the market for goods, for labour, and for capital enabled resources to be quickly adapted to changing needs in response to the sensitive index of price. The "Devil" of Parson Malthus was "securely chained up out of sight,"[1] and even the unskilled labourer, whose degradation had been abysmal at the beginning of the century, shared the glory of the period in a rising standard of life.

But whether this economic Liberalism was a law of Nature or no, it was not to share Nature's longevity. The promise of a speedy millennium which it cherished in Victorian hearts remained unfulfilled ; and capitalist undertaking was to inform the world rather rudely that it had not said its final word. As the century drew to a close and handed its sceptre to another, the god of the unwritten scroll of history conjured three giants before

[1] J. M. Keynes, *op. cit.*, 8.

us, to pitch their tents among us and to disturb the fair and restful view.

First of the giants was a new type of undertaker, whose domain was no longer one firm but many, no longer one part of one sphere of industry but a major part, perhaps, of several spheres. His instrument ceased to be the small family partnership and became the Joint Stock Company. In some cases his power was so extensive as to give him control over the market for one line of supply, and so to endow him with the power of deliberate monopoly. It was in finance that this new concentrated power was most pronounced; and in Germany and America, where scarcity of capital in private hands forced industry to resort to banks and financial houses for capital, the hand of finance fastened the new centralization on industry.[1] Banking interests, for instance, were responsible for the formation of the United States Steel Corporation;[2] and we find that "a great part of the railways and the chief manufacturing and mining businesses of America are largely under the control, for good and evil, of a comparatively small number of powerful financiers."[3] In Germany most of the big enterprises since 1870 were promoted and often controlled for extensive periods by one of the five big commercial banks; and the growth of cartels was "due in a great measure to the direct influence of the German credit banks."[4]

With this development the *régime* of numerous small undertakers, equal in status and advantage, which the Industrial Revolution had inaugurated, ceased to be; and,

[1] In addition, these countries lacked the strong tradition of economic Liberalism and of the small individual capitalist, which the Industrial Revolution had engendered in England. Also, being Protectionist countries, combines were more easily formed (*cf.* Levy, *Monopoly and Competition*, 195, 307–9).

[2] Berglund, *U.S. Steel Corpn.*, 66 *seq.*, 77.

[3] Marshall, *Industry and Trade*, 540.

[4] Riesser, *German Great Banks*, 167, *also* 45 *seq.*, 174 *seq.*, 417 *seq.*, 440 *seq.*, 483 *seq.*, 725 *seq.*, *cf.* Marshall, *op. cit.*, 343.

instead, the ruling part was played by a new upper grade of undertakers, possessing wider opportunities and advantages than their smaller brethren. From some branches of industry, even, small independent undertakers tended to be eliminated ;[1] and in a few cases the new development produced a significant reversion to conditions of the sixteenth and seventeenth centuries, when small masters were in semi-dependence on larger commercial monopolists. It is not unknown, even in this country, for small undertakers to occupy a position of semi-dependence on some large trust or combine, or at least to have to content themselves with operating in a narrower market.[2]

Two significant results of this development command our notice very sharply, and the attempt to control or avoid them has necessitated a departure from the *laissez-faire* of the older Liberalisms. First is the fact that the democratic tendency of the nineteenth century towards the diffusion of political power has received a definite check; and many have gone so far as to describe the modern State, not as a reflection of popular will, but as a political department of the larger capitalist undertakings. At any rate, it is no exaggeration to say that in America it is quite an open question whether the State will succeed in controlling the trusts or the trusts in controlling the State ; while in Germany since the war there seems almost to have been a marriage of the two. In England, in spite of the wide diffusion of the franchise, political decisions, legislative and executive, have in recent years been increasingly influenced, directly or indirectly, by prominent financial and industrial interests —for instance, by such powerful bodies as the Federation

[1] Riesser, *op. cit.*, 754 *seq.*

[2] *Cf.* above, pp. 136–7. *Also* Marshall, *op. cit.*, 242–4, who says cautiously that " every expansion in the general scale of industry is likely to increase in some direction the advantage which an inventor who is also a capitalist has over one whose means are narrow."

of British Industries, and the informal confederacy of the leading bankers of the City of London. One can scarcely fail to discern a certain parallel with the fourteenth century, when the municipal administration began to bow before the growing influence of *probi homines* and *divites et potentiores*.

The second legacy of this new development is concerned more exclusively with economic progress. The signal virtue of the *régime* of Liberalism was that the possibility of old-established interests blocking the road for new interests and new methods was reduced to the absolute minimum. Where the unit of undertaking was fairly small, competition was free, the principle of substitution operated deftly and ruthlessly and displaced rapidly any firm that did not adapt itself to change and failed to retain its vigour.[1] For this reason it was unlikely that any group of undertakers, secure in certain advantages of "goodwill," would seek to profit from the preservation of those advantages instead of from the introduction of improvements. It was chiefly for this reason that the nineteenth century was a period of such spectacular progress. The rise of the large unit of undertaking, however, and especially of the trust and combine, tended to change this; and established interests, like the Tory interests of the seventeenth century and the Whig interests of a century and a half later, began to entrench themselves, looking to the preservation of established position rather than to industrial change for their profits. Where the units of undertaking are large and powerful, the principle of substitution operates more sluggishly: the large undertakers apply the principle to others whom they employ, but they bend their energies to resist its application to themselves. The very possession of a large "goodwill" gives a differential advantage to be defended at all costs, making it more difficult and risky for new

[1] Marshall, *op. cit.*, 196.

competitors to enter. Such a barrier becomes similar in kind, if smaller in degree, to the protective barriers with which the interests of the sixteenth, seventeenth and eighteenth centuries guarded themselves from the intrusion of new rivals.[1] In this way the instruments of industrial progress, of which the nineteenth century had such reason to be proud, may be seriously blunted and our economic life may don the gray hues of a passive and immobile state.[2]

The second giant who came to mock the tradition of Cobden and Bright was modern Imperialism. With remarkable unanimity this appeared in all the leading countries of Europe in the three final decades of the nineteenth century. In U.S.A., the attention of whose undertakers had been fully occupied up to 1900 with expansion over the American continent, it made its appearance about twenty-five years later; and Japan

[1] *Cf.* Marshall, *op. cit.*, 542, for the danger of monopolies putting "obstacles in the way of any new enterprise that threatens an unwelcome intrusion." The extent to which this power is possessed is entirely one of degree; and though absolute exclusion of interlopers is unlikely, the power to restrict entry increases with the size of the large firms.

[2] Another tendency which may retard the rate of economic progress is the growing number and influence of the *rentier* class. Some of these are mere money-lenders receiving interest. Others bear some part of the risks of industry, and exercise a certain selective control as between the shares they favour and those they do not. But their function of risk-bearing is mainly of the passive kind and their selection chiefly negative. In the psychology of the *rentier* the conservative and retentive qualities tend to dominate: the purely accumulative (as distinct from the creative) aspect of his desires is stressed; he tends to be cautious and to cling to established privileges rather than to brave new adventures. Here and there individual investors may gamble to a surprising extent, but this seems to be due to ignorance of the risks involved rather than to bravery in facing them. (*Cf.* on this point the evidence of Mr. W. T. Layton to National Debt Committee, Aug. 5th, 1924.) Sombart points out that in Holland in the eighteenth century the wealthy bourgeois "waxed fat" as a moneylender: "he lived on his income, which, like a stream flowing gently and regularly, was derived either from the colonies or from invested capital." This broke the spirit of undertaking, as Sombart suggests it always tends to do. (*Quintessence*, 147). The whole question is explored by T. Veblen in his *Absentee Ownership* and *Vested Interests.*

was not long in parting from feudalism and following the example of civilization. The real nature of this new development has only very gradually been appreciated; but it is clear that it involves the eventual abandonment of Cobdenite Free Trade and internationalism alike, and provides for the State a new *rôle* in the encouragement of finance and trade. Its resemblance to Mercantilism was first remarked by Thorold Rogers, and one can see with increasing clearness under the light of special investigation how closely similar are its aims to those of the merchant adventurers of the seventeenth and eighteenth centuries. Superficially the resemblance is certainly very close. The movement towards Free Trade which had been visible in the leading industrial countries prior to 1870 was definitely reversed.[1] A new fever of colonialism, leading to the partition of Africa in 1884, had begun to claim first place in the politics of Europe. "It was no longer on the Rhine or the Danube, but in Tunis, in Egypt, in Nigeria, in Manchuria, that European chancelleries found the centre of gravity of their diplomacy."[2] In England the Fair Trade agitation gathered strength. Lord Rosebery, in 1884, founded the Imperial Federation League. Broken only by the sentimental pleading of Disraeli, the opinion had formerly secured assent that all colonies must sooner or later follow the example of the American States. Now there was to swell a pæan of Empire glorification, presaged intellectually by Froude and Seeley, hymned by Kipling, and extolled as "good business" by Chamberlain and Rhodes.[3] "Her Majesty's Flag," exclaimed Rhodes, "is the greatest commercial asset in the world."[4] A eulogist of Empire informs us that at first Britain was "unaccustomed to this direct State action and a little dazed by the general scramble," but fortunately "her missionaries

[1] Cunningham, *Free Trade Movement*, 79-81, 84.
[2] Viallate, *op. cit.*, 19. [3] Bérard, *British Imperialism*, 43-6.
[4] J. A. Hobson, *Imperialism*, 48.

and her traders saved her."[1] So great in the end grew the volume of the sound that even the devout Cobdenite began to disclaim the opprobrious epithet of "Little-Englander."

In France the same movement had its spokesmen in Jules Ferry, St. Hilaire, and Eugène Etienne. The whole romanticism of "La belle France," was garnered to the service of this new creed. The legend of Napoleon, the painful memory of Alsace-Lorraine—all such sentiments, in which the French temper is rich, added flavour to the new ideal of national power. In the seizure of Tunis in 1881 the imperialists tasted blood; with the seizure of Annam and Tonkin they pressed their policy further afield.[2] In Germany the same was happening, releasing the springs of a nationalism that had been abruptly nipped in 1848. In the 'seventies Bismarck's attention was being gradually diverted from the Rhine to Samoa and Lake Uganda. Under the influence of the big bankers, like Bleichröder, Hansemann of the *Disconto Gesellschaft*, and Godeffroy of the *Norddeutsche Bank*—an influence so great that the Conservatives called it indignantly the "Bleichröder era"—he gradually drifted into a policy of colonialism.[3] In 1879 a Protectionist policy was adopted, and in 1882 the *Kolonialverein*, backed by most of the industrial magnates of West Germany, was formed. By 1884 Dr Peters was busy in East Africa extorting charters from native sultans, dosed with wine;[4] and in 1889 the Anatolian Railway Company was formed at Constantinople by the Deutsche and the Dresdner Banks. At the same time, with remarkable coincidence, the Chartered Company once again appeared—the British East Africa and South Africa Companies in 1888 and 1889, the German East Africa Company in 1885, the Mozambique Company

[1] José, *Growth of the Empire*, 336. [2] *Cf.* Viallate, *op. cit.*, 20.
[3] M. E. Townsend, *Origins of Mod. Germ. Colonialism*, 109–110.
[4] L. Woolf, *Empire and Commerce in Africa* 236–8.

in 1894; and "in the ten years, 1880–90, five million square miles of African territory were seized by and subjected to European states."[1] By 1898 there was the ominous glint of steel in the Sudan, where France and Britain were racing to secure that vital link in their rival schemes of Middle-Africa and Cape to Cairo. In the next century the war clouds were rolling up in the Near East round the struggle of German and British financiers and diplomats to secure control of the strategic Bagdad Railway.[2]

But the resemblance of the new Imperialism to the old Mercantilism is not alone superficial. Not only as a political doctrine of national power do we see the likeness, but as an economic desire for self-sufficiency. The chief resemblance seems to be found in the driving force that is behind the movement, in that same passion of the undertaker to widen the market for himself and to narrow the range of competition, as actuated the merchants of Tudor and Stuart and Hanoverian England, and earlier actuated the burgesses of the towns in the struggle for town monopoly. If the undertakers of a country can be sure of important purchases in certain other lands being made from themselves instead of from their rivals of other nations, their opportunities for sale will tend to be widened; for they will have ear-marked certain areas of demand as demands reserved for their products alone. As a result, the balance of interchange of commodities in international trade will tend to turn in their favour. If undertakers can be sure that important raw material resources will be reserved for them, they will have secured a widening of the market of supply for themselves, and equivalently will have narrowed that of their rivals in

[1] L. Woolf, *Econ. Imperialism*, 32. In this way between 1880 and 1914 Britain acquired 3½ million sq. miles, France 4 million, and Germany 1 million. (*Emp. and Comm. in Africa*, 24–5.)

[2] *Cf.* Earle, *Turkey, the Powers and the Bagdad Railway.*

other countries. Again, the ability to enjoy in backward countries the products of the employment of cheap labour will clearly be a great advantage in international competition. Still further will the undertakers benefit if they can impose tariffs on foreign goods in home and in colonial markets, and thereby secure for themselves privileged opportunities in these special preserves. Of course, if the undertakers of a second country do them the flattery of imitation, some of the advantage of the first country will be nullified. But the undertakers who secure their advantage in the first place will reap large profits from it; and the imperialist race, once started, will tend to accelerate progressively; to keep ahead of its neighbours rather than any static goal being the guiding passion of each contestant.

Such detailed investigations of these colonial ventures as are available reveal very plainly the large part that has been played in them by these economic factors. Although they gather in their train numerous other influences, political, military, moral, racial, and sentimental, "the motives of policy become more and more clearly recognized and proclaimed as economic ends."[1] The immediate occasion of the waning of Cobdenism and a search for markets in a new direction seems to have been the depression of the 'seventies. At this period England was beginning to lose the lead she had formerly enjoyed and the advantageous position that she had held in the markets of the world.[2] There was a universal cry of increasing competition and of narrowed markets.[3] The delegates of the Birmingham iron industry before the Committee of Enquiry on the state of trade complained bitterly of foreign competition, and demanded "commercial union with our colonies"; and Sheffield likewise declared that "to make good the loss of the American

[1] L. Woolf, *Empire and Commerce*, 24.
[2] *Cf.* Marshall, *op. cit.*, 93. [3] Hobson, *op. cit.*, 64–71.

market we ought to have the colonial market."[1] Chamberlain began to proclaim that it was the duty of the Government to "create new markets," and to see that "old markets were effectually developed"—a revolutionary theory of State function, indeed! "For these reasons," he said at Birmingham in 1894, "I would never lose the hold which we have over our great Indian dependency. . . . For the same reasons I approve of the continued occupation of Egypt, and for the same reasons I have urged upon this Government, and upon previous Governments, the necessity for using every legitimate opportunity to extend our influence and control in the Great African continent which is now being opened up to civilization and to commerce."[2] In Germany and France it is the same cry. Germany complains of over-production and the need for an outlet for capital which at present was being engaged in speculation at home.[3] Prof. Paulsen later wrote of that period that "the enormous increase of its industrial production and its trade compelled (Germany) to take measures for the extension and the security of its over-sea interests"; and the *Cologne Gazette*, in speaking of the Bagdad enterprise, declared: "We are doing in Turkey just what we are doing in other parts of the world—we are seeking new markets for our exports and new spheres of investment for our capital."[4] In France Jules Ferry defended his colonial policy in 1885 by saying that it was a question of "débouchés pour nos industries, nos exportations, nos capitaux." "There is a new form of colonization," he said; "it is that which is adapted to peoples which have either a mass of disposable capital or an excess of manufactures."

It was not, on the whole, surprising that the capitalists

[1] Bérard, *op. cit.*, 57–61. [2] Quoted Woolf, *op. cit.*, 18.
[3] Townsend, *op. cit.*, 99.
[4] Quoted by W. H. Dawson, *Evolution of Modern Germany*, 345, 348.

of 1870 should look in new directions to those of 1800. It was about this time that two important changes were occurring: the one, already mentioned, was the growing concentration of power in the hands of large financial and industrial undertakers; the other was the rise of a new section of undertakers whose activities were in iron and steel and who were challenging the priority which the cotton undertakers of Lancashire had previously enjoyed. This latter development was directly hastened, and the former indirectly, by the series of inventions with which the names of Bessemer and Siemens and Thomas and Gilchrist are associated—names which history will one day honour equally with Crompton and Arkwright and Cartwright and Watt.[1] The Age of Cotton tended to pass into the Age of Iron and Steel, and politically the School of Manchester began to wane before the rising star of Birmingham. These younger undertakers of the iron and steel industry had none of the circumstances that made their grandfathers in Lancashire so passionately opposed to Mercantilism. The destructive force of Liberalism had done its work in clearing the ground of an obstructive system, and people had begun to forget what had existed before. The iron and steel industry was not free from competition in the markets of the world, as the early Lancashire cotton industry had been, and by 1870 it was meeting with extended competition everywhere. In this industry, because of the heavy burden of its fixed capital, the extremely fluctuating character of the demand for its products, and the largeness of its representative firms, competition always tends to assume a much more cut-throat character, and depressions tend to be accordingly more severe. As a result, the desire to avoid competition and to secure new and assured opportunities is equivalently greater. Moreover, the new industrialists were not, on the whole, as democratic a

[1] *Cf.* Eckel, *Coal, Iron and War*, 42, 58-9.

movement of small capitalists, rising to assert themselves against vested interests, as the new men of 1800 had been. They were rather tending to become a new oligarchy of large undertakers, concentrating their power and raising themselves above their fellow undertakers. Their whole psychology, as a result, was different. In other countries they were usually closely wedded with high finance ; and it was not difficult to gain the ear of authority, as the affair of Herr Godeffroy and Samoa in 1879 abundantly illustrates.[1]

It was to be expected, therefore, that the business community should turn its eyes to the undeveloped countries of the world as spheres of penetration. Once their eyes were turned in this direction their conversion to the Imperialism of Chamberlain was assured. For, the market for iron and steel goods is not scattered among a multitude of consumers over the globe, as is that of cotton piece-goods ; it is concentrated in certain parts of the earth where railway or industrial development progresses keenly, and is in the hands of a Government here or a corporation or syndicate there, which has invested money in development work. Political control to influence the customers' choice becomes, therefore, a much more feasible proposition. Moreover, the units of purchase are exceedingly large, as, for instance, railway contracts and concessions ; a single decision may make the difference between boom or depression in the constructional industry of a country. For this reason the individual concessionaire, if he is one of many rivals, may suffer much the same disadvantage in bargaining for employment as does the individual wage-earner.[2] Collective bargaining on behalf of the concessionaires of one nation will accordingly greatly improve the terms of

[1] *Cf.* Woolf, *op. cit.*, 31–3 ; Townsend, *op. cit.*, 111–15.

[2] *Cf.* above, p. 108. The disadvantage will probably not be great, but it will be great enough to show the advantage of bargaining collectively.

the bargain; and this is a prize of special glamour, since the concession once obtained bestows from thenceforth a position of monopoly.[1] A little influence, therefore, may have a very considerable effect; and the temptation to use this influence—so easy and innocent a matter, perhaps, over port wine and cigars—becomes as great as the temptation to the Elizabethan courtier to couple a suggestion about the salt monopoly with the poem of adoration which he presents to the Virgin Queen. If English financiers have lent money to a Sultan, it is so easy to insert a provision that the money shall be expended at Middlesbrough or on the Clyde. If it is doubtful whether a loan is to be floated in Paris, London, or Berlin, or whether a concession for telegraphs or a railway or for mining rights is to be granted to Creusôt, to Vickers or to Stinnes, it is a great temptation for the Paris interests to insist that the French consul shall use his diplomatic influence to ensure that his country is favoured in the deal. If it can be secured that a German is appointed as expert adviser to some Prince or Shah, if German missionaries and German education have swayed opinion among the natives in favour of German ideas and culture, then Berlin high finance and the heavy industry of the Ruhr are likely to benefit from any financial and commercial needs which the Prince or Shah may possess. *A fortiori*, if either of these Powers has a "sphere of influence," a protectorate, a mandate, or are in actual possession of Tripoli, Morocco, Egypt, Persia or Mesopotamia, the undertakers of the protecting or possessing country are likely to receive especial benefit.

With the interests of industry the interests of

[1] Once the concession is given, the facility of supply of new undertakers is virtually zero, and the concessionaire will bear entirely all unanticipated gain or loss. If he has been able to limit competition in the bargain for the concession, he will have secured valuable monopoly profits as well.

finance are coupled; for, like concessions, and unlike ordinary trade, investment requires some degree of political control as safeguard. The interest of the trader in his commodity ends with the act of sale; the interest of the financier or the concessionaire only begins with the signing of the contract. And there is a further consideration. We have just said that an individual business man in bargaining with a government may be at a disadvantage through the rivalry of his fellows; at any rate, his position will be much stronger if he bargains collectively. In the relations between a backward country and a *bloc* of big financiers, however, the balance is undoubtedly tilted on the other side. The buyers in the former lack information; they have few opportunities of buying foreign wares; they are unused, perhaps, to the economy of driving a hard bargain. In the case of the government of the country, it has the disadvantage of being poor—perhaps in financial straits—and in the matter of a loan its high time-preference will make it willing to pay usurious interest, and pledge the loan with valuable concessions and privileges. More particularly will this be the case if the ruler is a tyrant who finds it easy to barter the property and livelihood of his subjects for the ready money with which to increase his bodyguard or his corps of dancing girls. Further, if it is a matter of working mines or plantations or hiring "navvies," there is usually abundance of cheap labour to be procured —cheap, that is, in spite of the fact that it may be less efficient than European labour. If such cheap labour is not forthcoming, this fact becomes a special inducement to the use of political pressure to wean the natives from their idle ways. There is, therefore, golden opportunity for the large undertakers of the Powers to-day to grow fat on the profits of money-lending and trade by devices similar to those which the Hanse merchants found so remunerative in their dealings with spendthrift English monarchs. The advantage which they can gain, and the danger that such advantage may be weakened by the rivalry of different financial groups, is well illustrated by the promptness with which the Powers habitually close their front, or financiers form consortiums and demarcate "spheres of influence," so soon as any country like Russia, Turkey, or China adopts the tactic of "playing off" one group or one Power against the other.[1] Professor Pigou has put the whole matter very plainly. "There are openings for highly profitable investments," he writes, "in loans to weak governments whose officials can be bribed or cajoled, in building railways for such governments on favourable terms, in developing the natural resources of oil fields, or in establishing rubber plantations on land taken from Africans and worked by the forced or 'stimulated' labour of Africans at a very low wage. When the government of some civilized country has annexed, or is protecting, or has established a sphere of influence over any undeveloped region, these valuable concessions are apt to flow, even when they are not formally reserved, to financiers among its own nationals. These financiers are often rich and powerful. They have means of making their voices heard through newspapers, of influencing opinion, and of putting pressure on governments."[2]

There is little doubt that the verdict of history will show that this Imperialism has done more to revolutionize the backward economic life of Africa and of Asia and of parts of South America than Liberalism was ever likely to do. To those older civilizations it has been a disruptive

[1] A recent instance of this is given by the history of the negotiations of the oil combines with the Russian Government and the reflex of these negotiations in the Genoa and Hague Conferences of 1922; and also at Lausanne in the case of Turkey. (*Cf.* Davenport and Cooke, *Oil Trusts and Anglo-Am. Relations*, 127–155.)

[2] *Political Economy of War*, 21–2.

force, breaking ideas, habits and institutions alike, while at the same time laying the foundations, in technique, in constructional work and in education, of a more progressive modern age. In the race for spoils there have often been pauses of real creative work; and whether sincere in his public utterances about it or not, many an empire-builder has managed to be a pioneer of civilization as well. But the evils which attached to Mercantilism in the eighteenth century seem to have attached themselves already to the new Imperialism. The "bearing of the white man's burden" is too often marred with the black man's blood. The concerts of interest in imperial development have so far proved no more than temporary truces in the more fundamental rivalry for concessions, loans, monopolies, for strategic centres and for imperial prestige. The legacies of the latter soon overpower the former and mock the efforts of well-intentioned peacemakers. The whole atmosphere is finally made so electric with apprehension and suspicion of the aims of rival powers, the world becomes so tangled and compromised with alliances, treaties and counter-treaties, that the echo of a student's pistol in a Balkan capital suffices to set the whole world at war. This Imperialism, which economists so frequently pass by on the other side, is, perhaps, by far the most important instance in which individual profit and social utility, the interest of the short-run and the long-run, do not agree—the case *par excellence* where the individual and the social net product of capital investment diverge. Imperialism brings profit to the investing class in the wider opportunities of investment it affords. It brings exceptional "windfall" gains to the undertakers who get a start in the race. But the diversion of resources which it occasions for military and imperial ends imposes a heavy toll on economic welfare, and the war which it tends to bring in its train suffices under modern conditions to wreck the whole system of entrepreneur adjustment, and to put the clock back on economic progress by many years.[1]

The third giant to invade the Cobdenite Garden of Eden has been the modern Labour movement. It has a counterpart that we have seen before in the journeymen's societies of the fourteenth and fifteenth centuries in English and in Continental towns. But its significance is much greater than these mediæval defensive bodies, purely local and sectional in character; for, it is an organization in defence of those interests which are common to the workers as a class. For this reason, being based upon the interests of the many as against the few, it inevitably tends to be democratic, and its qualities of opposition to existing privileges tend to be more prominent than the more oligarchic and acquisitive desire to obtain privileges for some new group. The movement was only likely to appear after the rise of modern industrial undertaking; for, not until then were the workers in general precluded from serious possibility of securing betterment by rising to the position of small mastership, and their common interests were unlikely to be appreciated and to become vocal until the workers had been gathered together in large groups, so that contact bred familiarity and furnished the means of organizing.

But in the early phases of the nineteenth century conditions were not yet fully ripe. Considerable elements among the workers were those who but lately had been villagers and small craftsmen. Their ideal lay in the past, and they vented their fury without discrimination

[1] There is, of course, no warrant for assuming that war would not occur if Imperialism were absent. But there is warrant to assume that the presence of Imperialism increases the probability of war very considerably; and it must therefore be held responsible for a very large part of the effects of war. The *precise* connection between the two is too large a matter to discuss here; but an *important* connection seems indisputable. For instance, Mr C. Beard has declared that "the weight of authority supports the view" that "the last world war grew mainly out of commercial rivalry." (*Cross Currents in Europe*, 138.)

against the whole new order of things. Machinery and factories and towns they hated alike. The symbol of this tendency was Luddism; its journalist was Cobbett; and the artistic expression of it found an echo many years later in the aristocratic disdain of Ruskin for the new men and their new ways. For him machinery was the symbol of ugliness; for beauty he sought the feudal pageantry of the past. The first constructive period of labour organization, therefore, did not begin until this tie with independence had been broken, and until the first ill-organized, ill-conceived expressions of the anger of heterogeneous elements in Owenism and Chartism had failed. This construction came in the period of the Old Unionism, which corresponded with the heyday of Liberalism, and was, in fact, a surrender to it. The Old Unionism was not yet a class movement: it was based only on a few privileged crafts; and under the leadership of a Junta, the Unions accepted the basis of capitalist undertaking and sought by the slow building of craft organizations to use the old mediæval methods of restriction and monopoly to raise themselves above their fellows and to secure some of the gains of the new progress.[1] But in doing so they were creating instruments which were later to be turned from the collection of central funds and the enforcement of apprenticeship regulations to wider ends; and when at the close of the century the organization of wider masses of unskilled workers was begun, mediæval methods of restriction became no longer practicable. The many have little to gain by being exclusive; and where apprenticeship was absent the most convenient cloak for limitation of numbers was lacking. The New Unionism, therefore, turned to organization as a means of lessening the workers' bargaining dis-

[1] *Cf.* Webb, *Industrial Democracy*, 453 *seq.*, and *Hist. of Trade Unionism*, 201, 217–9, 359–63, 374; R. W. Postgate, *The Builders History*, 181 *seq.*

advantage. The unions became the instrument of collective bargaining and of the strike ; and for the first time a collective class interest—the agitation for the *national minimum*—became mixed with purely sectional aims.[1]

It was a natural step from this aim of the New Unionism to the new political policy that it was quickly to adopt. It seemed logical in pursuit of the national minimum to look to the State and the Fabianized civil servant as the benevolent third party who would aid the workers against their employers ; just as the early towns had resorted to the Crown to aid them against the feudal nobility. The new unions were, therefore, fertile soil for the Fabian seed. In consistency with its aim, the Labour movement became Parliamentary, and sternly disavowed extra-constitutionality, and later sought to gain the alliance of the middle class. Some of its leaders even supported the new Imperialism, as did the leaders in Germany,[2] in fear of transgressing any existing social code. Labour assumed political significance as a movement of collectivism against *laissez-faire*, designing to raise the standard of the poor and to supplant individual by State undertaking in all those cases where individual profit and social utility did not coincide.

But simmering beneath most of the industrial and political struggles of this period was an element of a much wider significance than this. On the continent of Europe, which lacked the strong tradition of economic Liberalism and the period of ordered progress of the Old Unionism, this wider element occupied a more prominent place. It was often more prominent, in fact, in the mouths of socialist exponents than in the actual practice of the movement's leaders, where it was " watered down " to

[1] Webb, *Ind. Dem.*, 766 *seq.* ; *Hist. of Trade Unionism*, 383–5, 402–9, 420–1.
[2] Dawson, *op. cit.*, 341, 398–400.

the recipe of Parliamentary expediency. In this wider significance it was an anti-monopoly movement; and into this final phase the movement is now rapidly tending to develop. One may even say that this is the apotheosis of the opposition to monopoly; for, whereas the Parliamentary opposition of the seventeenth century levelled its attack on specific abuses, and was, as we have suggested, largely insincere, and whereas the nineteenth century Liberalism attacked monopolies couched in legal form, this new tendency has placed its axe at the very base of capitalist undertaking itself. With the triumph of Liberalism the monopolies which rested on legal privileges were swept away. But by that time wide differences of wealth and position had been so firmly established as to constitute by themselves, without any legal aid, wide differences of opportunity: the class that owned and was rich had a monopoly of superior opportunities and a superior advantage embodied in the ownership of economic property, while the worker who had been divorced from all property was placed in a position of disadvantage and dependence. The former were the lords of a wider market, destined to secure the major gains of economic progress; the latter were limited to narrower opportunities, and on them was bound to fall the heavier burden of the hardships which most change involves. It was not surprising that most of the Liberal thinkers of the nineteenth century who were blind to this species of monopoly should have failed to see the true significance of the Labour movement and even denied it reason to exist.

This wider aim, this opposition to monopoly, seems indeed to be the inevitable *telos* of any labour movement. Without it the movement must be largely ephemeral—a special organization created for limited ends, later to relapse into a piece of routine machinery. When capitalist undertaking progresses smoothly this aim is dormant, for then a share in the gains of progress eases the discontent of the working class. The energies of the Labour movement are fully occupied in securing this share ; and its activities are subordinated to the general tendencies of capitalist undertaking. When, however, a check to this progress occurs, then the burden of the situation tends to weigh heavily on the workers, and in its subjective incidence to be proportionately much greater than its money measure. Then the Labour movement ceases to be subordinated to the general tendencies of capitalist undertaking. It voices demands which are contrary to the requirements of the system, and these are likely to broaden into an attack on the monopoly basis of capitalist undertaking itself. From the nature of the case the struggle tends to develop along class lines, and, like Imperialism, to drag numerous accentuating factors, moral and sentimental, in its train.

It is as a characteristic incident in this issue that there develops the demand for workers' control. This originates in the feeling that the helm of society is held by persons who have interests which are not those of the workers themselves ; and workers' control is desired as one approach by which the helm may finally be grasped entirely in the hands of a pilot of their own appointing. To explain and to discuss the problem in terms of ordinary democratic theory crowning it with such distinctions as "politics is concerned with a process" while "industry is concerned with a product," or offering as a solution that an engineering shop be handed to the Trade Unions to see if the experiment in control is a success, is to commit the worst sins of academic abstraction. The problem of workers' control as a real problem is nearly always a problem of strategy in a manœuvre for position. It is as much a question of politics—of power—as was the mediæval struggle for market control.

Unless, therefore, we understand the mind of this third giant, as well as recount his antics and his thunderings, our power to forecast the future will be more limited than even at present it is. In so far as the *telos* of the Labour movement is to abolish monopoly, the precise form of industrial organization which it intends ultimately to create is not a matter of central principle ; it is merely a matter of expediency, to be dictated by the demands of entrepreneur adjustment. Moreover, this ultimate aim, when monopoly is abolished, is logically distinct from the transitional aims which may be advanced in the strategy of the preliminary struggle. The latter are purely tactical, and have their sole value as such ; the former are matters of expediency, the necessary adaptation of administration to the changed class conditions. The controversies between collective and individual undertaking, which figure so largely in collectivist literature, or between centralized and decentralized systems of socialist administration become in the wider phase of the movement only a subordinate and incidental issue. The difference between the later phase and the earlier, between the "extremist" and the "moderate" of the present-day movement, is not between a party of peace and a party of blood, between persons of patient and persons of hasty temperament ; the difference is between those who launch their attack primarily on class monopoly, and those who make the central issue that of collective undertaking *versus laissez-faire*. The former, accordingly, do not rely on the State as their chosen instrument as do the latter ; rather do they regard it as the bulwark of their enemies, to be attacked and modelled anew before monopoly can be overthrown. But they have travelled far from the Luddites and from Ruskin ; they look not to any Golden Age in the past. To them the machine, controlled by themselves, is the symbol of progress ; and by poets and artists who have caught the spirit of this new tendency, like Toller, Meyerhold and Lunacharski, the rhythm of the machine is conceived as the essence of beauty and as the symbol of the higher and freer life.

What the future vagaries of this third giant may be it is hard to tell; but it is not difficult to appreciate the results of his presence. His effect on the entrepreneur efficiency of undertaking is considerable. Apart from the direct loss involved in Labour disputes, there is much diversion of energy and resources and much friction directly occasioned. Suspicion and dislike are engendered on both sides, and the actions of employers and Trade Unions alike tend to be governed by purely strategic considerations, rather than by the general efficiency of industry, as the history of scientific management abundantly illustrates. The incentive of the worker tends to be sapped, and to yield place to the notorious "ca' canny" or to a sentiment of boredom, in which every inconvenience finds an outlet in hatred of the employer and so reacts in enhanced ill-temper against existing authority. Each dispute and each industrial struggle tends to develop progressively an antagonistic class loyalty among the workers, which like a bruise grows more sensitive to each touch. The growth of strong Trade Unions, imposing protective restrictions and initiating protective legislation, considerably lessens industrial fluidity, and renders sluggish, if it does not actually obstruct, the working of the forces on which individual undertaking relies to secure the rapid adjustment of resources.[1] The tendency of such Labour protection is to impose limitations on the freedom of the undertaker—to bound him with regulations, shackle him with controls, and hamper his collection of profits. All these measures, when they are carried beyond a point,

[1] For instance, resistance to wage-reductions during a trade depression may hinder in certain industries the movement of labour to other places and occupations, where it is less superfluous.

tend to sap the undertaker's spirit of enterprise, weaken his assurance, and to cause him to seek profit by entrenching his position with privileges rather than by exploring fresh uncertainties ahead.[1]

The third giant, therefore, no less than the other two, darkens the horizon of the Cobdenite dream, and rudely shatters it. Of the future fate of our noble Jason, who in the nineteenth century won for us the prize of the Golden Fleece, we of the twentieth century can say little. Will he be consumed and his issue with him by the dark magic of the barbarian whom he has cherished? Or is it that this third giant is really a Nietschean superman, come to devour the other two—that he is a new Jason, whom the three sisters have destined to take the heritage of his sire's grey hairs, and to explore for us realms which our imagination does not at the moment conceive? At this point the wisest must needs fall back on mere belief or disbelief. Perhaps, even in this unleisured age there is still room for the sceptic, who shall escape from reality aloft in a balloon and critically watch the outcome. But there remains the strong chance that, if mortals fall to fighting, his academic balloon may be shot down. And after all, how much better to help to move the pen across the scroll of history, than like a bloodless cloistered pedant only to read what is already writ! The unfinished page of history is a tantalising thing.

[1] This fact is fully admitted, including the possibility that it may result in an actual breakdown, by "Seven Members of the Labour Party," in *The Lab. Party's Aim*, 72–3.

PART III

Applied

CHAPTER TWENTY-TWO

The Problems of Economic Control

In the realm of applied economics only the beginnings of a scientific method of study have been made. With the theory of public finance as an important exception, traces of it are only to be found in scattered portions of the subject. In recent years, principally since the war, there has been some study of the relation of monetary theory to the problem of price-stability. Attempts have been made to blaze a trail through the wilderness of the problems of unemployment and the trade cycle, and some useful though tentative conclusions have been reached by statistical paths; while certain economists, principally in America, have laid the first foundations of an inductive approach to certain problems of wages and labour efficiency. But these have remained mere fragments, unco-ordinated as yet even by the skeleton of a final structure. Though certain stones have been fashioned into things of beauty, the building of the mosaic cannot be said to have started.

As a result we find little to guide us through those issues which are more and more becoming fundamental to political and social controversy. The specialized researches of which we have spoken touch them not at the heart but on the fringe; and economists are wont either to prejudge them or to neglect and leave them to the loose chatter of the market place. The connection between credit control and stability of prices may be established satisfactorily; but how does this touch the contention of the Socialist that the first remedy for social ills must be the burial of the capitalist undertaker? It may be possible to show a connection between certain measures of state regulation and an improvement in labour efficiency; but this scarcely meets the complaint of the advocate of *laissez-faire*, who regards all such measures as more likely to disturb enterprise than to remedy specific abuses, as the dangerous "thin end of the wedge" of Socialism. Again, the discovery that certain types of taxation lessen the inequality of wealth leaves us still with the central issue unsolved, whether any considerable reduction of inequality is possible without bringing economic progress to a halt.

Moreover, if the contribution of applied economics is to be a positive one, it must take into account those cases where political and psychological and economic factors interact. The effect of a certain change on the mental reactions of those affected might be more important than its direct effect on material output. The conclusion that the nationalization of certain staple industries would provide a remedy for some social ills might be quite reversed if it happened to be probable that such a welding of industry and State would facilitate the pursuance of a too aggressive Imperialist policy; while to suggest State control as a remedy for the trust problem, when the growth of the trusts had involved a corresponding growth of the influence of "big business" in State affairs, might be of as little avail as to have suggested in the fourteenth century the control of an exclusive Gild Merchant by the authorities of the town.

To develop, widen and increase these specialized departments of applied study until they meet to be assembled into a consistent whole, or else to provide some skeleton framework within which intensive work may proceed, seems to be the direction in which economists of the twentieth century are likely to turn their attention. Until they have done so, the politics of the market-place will have to live on faith and myths. But it seems clear that this theoretical structure, when it is built, will depend upon the conception of the business undertaker, measured against the pure theory of the impersonal entrepreneur. Already the absence of a sound theory of enterprise has allowed the protagonists on the political stage to fill its place with motley, ill-fashioned conceptions of their own ; and the responsibility of the economist in the future seems to lie in reducing this strange collection to some common measure and in civilizing the Babel by giving to it at least a common tongue.

In this connection a distinction which was drawn in Chapter II is of fundamental importance. It was there remarked that the work of the undertaker can be divided into two distinct parts. There is that part of his work which he consciously plans and which is concerned with the internal organization of the firm—the unit of control. This he organizes and continually reorganizes so as to obtain the best results, substituting small units of resources in one department for those in another, in a lower grade for a higher, units of capital for units of labour, a new technical or administrative device for one whose day is gone. The activities of the firm which he controls he will regulate on a rigid cost principle : he will ensure that no activity is undertaken which does not at least cover its prime costs, and in the long run cover its share of supplementary costs as well. The other part of his work he does by continually watching price-movements around and outside him, and as a result substituting purchase in the cheaper market for the dearer, and sale in the direction where consumers clamour most insistently for sale where prices are not so high. In this way he applies the principle of substitution to his fellow undertakers, and they in turn to him ; and he labours as one cell in a larger organism, ever striving to augment and adapt supply to tempt consumers' demands. The former can be distinguished as the *conscious* part of the undertaker's work—conscious control and conscious substitution; and the latter, because the undertaker is seldom aware of the wider results of his activity, may be called *unconscious* or automatic undertaking operations.[1]

These two spheres of operations, combined in the one man, are probably affected by quite different causes, and conditions which promote the entrepreneur efficiency of the one may be actually detrimental to the other. When the units of industrial control are small, whether under conditions of classless individualism or of capitalist undertaking, the results of the system will depend to much the greater extent on the success of unconscious undertaking operations. When, however, the units of control are large, whether they are captained by a capitalist undertaker or by a communist official, the part which is played by conscious control and planning becomes greater, and much will depend on the efficiency of the administrative machinery devised to do this. Now, the *forte* of the *laissez-faire* and individualist position is the claim that the major part of economic activities is better left to unconscious operation than disciplined to conscious control and plan. In fact, it is the claim of anarchism in the economic sphere. The contention of the Collectivist, however, is the precise opposite; and the persuasions of the Fabians during the last fifty years have been devised to demonstrate how inefficient this unconscious operation is and how immeasurably superior is conscious economic control.

[1] This distinction is remarked and described as the difference between the co-ordinating and the impersonal or mechanical part of the business-man's work by Mr P. Sargant Florence (*Econs. of Fatigue and Unrest*, 39–43). In so far as this latter work is concerned with operating the principle of substitution, it can be said to be an essential part of the entrepreneur function, but, in so far as it is concerned with *overcoming the resistance* of rivals to substitution, it is work peculiar to an individualist system. Competitive advertisement and salesmanship are of this character.

So far the logic of events has played in a certain degree into the hands of the latter. The concentration of industrial control has brought the larger unit, and this has thrived by displaying superior efficiency to a number of smaller firms.[1] Also, as we have mentioned elsewhere,[2] this development has brought conditions which call for considerable departure from extreme *laissez-faire*. As a result, the real issue has to-day become a little shifted; and it is now joined between those who would limit interference with economic anarchy[3] to the minimum which is shown to be absolutely necessary, and those Collectivists who are so enamoured of the advantages of control as to require its extension much further than has been done hitherto. The fringes of the two parties tend to meet at the present day on the subject of credit control, by which it is hoped to steady prices and to eliminate much of the fluctuation of the trade cycle. This the individualist regards as a convenient device for removing the evils of instability of which his opponents complain, while interfering with the actions of the undertaker in the smallest possible degree. On the other hand, it is accepted by the Collectivist as a minimum, the success of which will merely show the value of a still further extension of conscious control.

Into the tangled maze of this controversy we will not be so brave as to plunge. As yet the material on the matter has scarcely been co-ordinated sufficiently to make anything but a provisional decision possible. All that can be done is to draw certain bold lines to bound the discussion; and this it seems best to do by indicating

[1] In so far, however, as the larger firm has gained over rivals by the possession of monopoly power, the test of commercial success cannot be completely accepted as a proof of superior entrepreneur efficiency. But the generalization in the text can probably be accepted as being in practice broadly true.

[2] *Cf.* above, pp. 336–8.

[3] The word is here used in its strictly literal sense and without any of the popular associations of the word which carry a derogatory flavour.

some of the problems of control and of anarchy, which, although fairly evident, are too often neglected by those who enter upon discussion of the subject.

Where conscious control holds the field, the chief problem of entrepreneur efficiency is to ensure adherence to the principle of economic measurement, and to ensure that the measuring-rod is an adequate instrument.[1] But where the measuring-rod is faulty, or where the adjustment of resources and activities according to this guiding index is hindered, the requirements of efficiency will not be fulfilled. In a class system there will always be considerable error in this respect, since the existence of monopoly will distort the measuring-rod. The index by which economic activities are regulated will be a reflection of the inequality of income; and for this reason it may reflect true needs only very imperfectly. Further, in quite important cases the profit of the undertaker may not be synonymous with the gain of society as a whole.[2] There is the danger that deliberate monopoly may add its disturbing influence as well; and the existence of large units of control may seriously hamper the application of the principle of substitution to the undertakers who control them. On the other hand, either in a class or a classless society, where the control is exercised by persons whom the community appoints, there exists the grave danger that political or personal influences may seduce the administrators from their proper allegiance to the principle of economic measurement. They may be tempted to interfere with the conduct of that measurement, and they may be tempted to refrain from ruthless substitution at the measuring-rod's behest. Moreover, who is to apply substitution to these administrators themselves? Presumably, it will be done by the community which appoints them. But the judgment of the community must needs be *ex post facto*: it will be a

[1] *See* above, p. 39 *seq.* [2] *See* above, pp. 166 and 349.

judgment by results; and accordingly, action may be too tardy, and when it comes may be prompted by a wrong diagnosis. The difficulty might be partly surmounted by administrative devices, such as a control commission specialized on the work of controlling the various economic controllers; but there would be no automatic, unconscious substitution as exists under individualism when the unit of control is small; and the efficiency of this conscious control would be confined to the growth of a more perfect grasp of economic principles, and of entrepreneur requirements in particular, among those who speak for the community than at present exists.

A very elementary example of the kind of danger which would have to be avoided, and which on a larger scale might produce grave chaos, is afforded by the failure of a recent experiment in building enterprise known as the Building Guild, Ltd. The control of activities was here vested in the committees of various local guilds, whose work was co-ordinated by a national committee. With these local bodies lay the decision as to the contracts to be undertaken, the purchase of the requisite materials, and the employment of the necessary brain and manual labour. The Official Receiver of Manchester, in his report on the affairs of the Company after its bankruptcy, noted the following defects in its administration. First, the local committees were free to enter into contracts and to purchase materials without adequate supervision from the head office. Second, there was little evidence of attempts to obtain materials in the most efficient manner and from the cheapest sources. Third, there was no systematic attempt to regulate contracts and their operation so that contract price should cover cost. "There seemed to have been a lack of correlation between cost and contract price; there was no evidence of any method by which, when any given contract was entered into, a fixed determination was made to complete the work within the agreed selling price and thus earn a profit." Without a centralized direction of activities there was, clearly, small possibility of concentrating the resources of the company on those activities which yielded the best net results; and its organizers appear to have allowed their zest for a "social experiment" to blind them to the need for observing the cost-principle. The principle of substitution seems scarcely to have been applied at all. On a larger scale conscious control of this type might have plunged industry into an industrial crisis more serious than any of the last century. Moreover, if the controllers could have relied on generous subsidies or loans from a national body, equally fired with idealistic enthusiasm, there might have been no limit for many years to continuance on this uneconomic way.[1]

This danger is merely one of elementary business inefficiency, and because it is so obvious it is, perhaps, not a very grave danger. But the wider implications of it, as applied to the economic control, not of one firm, but of whole industries and to social policy in general, is not so readily appreciated. For instance, Mr and Mrs Webb speak much about measurement, and emphasize the cost-principle as applied to the activities of each industrial department;[2] but there is little indication that they appreciate the broader requirements of entrepreneur adjustment as applied to the economic system as a whole,

[1] Report of the Manchester Official Receiver on the National Building Guild, Limited, July 23rd, 1924. Other causes of the bankruptcy were cited as: (*a*) insufficient capital, (*b*) the inexpert character of local guild secretaries, (*c*) incomplete book-keeping. But these are not important for our present purpose. The difficulties in question would probably have been much greater in an industry which had large overhead charges.

[2] *A Constitution for a Socialist Commonwealth*, 328, *also* 186–7, 286. It is rather significant that the discussions on Guild Socialism, which have tended to dominate Socialist theory in Britain during the last ten years or so, concerned themselves much with the political reasons for centralized or decentralized control, while scarcely mentioning the economic problems as described in the text.

or that they realize all the problems which the allocation of the community's resources by methods of conscious control involves. An illustration of some of these more comprehensive problems can be given by expanding an example suggested by Prof. Cassel.[1]

Let us imagine a community, either a class society or classless, whose economic life is in the main subject to conscious and systematized control; and let us suppose that it has been decided to devote a larger proportion of the labour and resources than has been done hitherto to indirect production or constructional work which will not yield fruit for some years. If this is done, less labour and less resources will be available for producing present utilities—food and clothing, etc., for immediate use—than there was before; and as a result there will be a shortage of these things. This shortage will be, as Prof. Cassel rightly points out, a burden on the present, comparable to the payment of interest, and will have to be borne by the community as the price of development work. Now, as a result of this shortage, food and clothing will either have to be rationed or else allowed to ration themselves automatically by a rise in price up to the point where consumption is reduced to the requisite extent.

Here it is that the danger exists of extraneous influences interfering with the decisions of the economic administrators; and as a result one of three wrong courses of action may be adopted. First, fearing popular disapproval, the economic controllers may refrain from raising the prices of food and clothing; and, as a result of this, so much of the short supply may be consumed in certain places or in the first half of the year, as to produce a serious famine in other places or in the later months of the year. Second, they may consent to raise prices so as to "choke off" the excess demand, but they may

[1] *Nature and Necessity of Interest*, 176–7.

at the same time yield to pressure and allow wages and salaries to be raised equivalently to the increased cost of living. This would merely defeat the results of the original rise of price by increasing the demand correspondingly, and the shortage of supply would be as great as before. This same mistake might occur more indirectly in the attempt to finance the constructional work by an expansion of credit. This would merely increase the purchasing power of some section of the community, and would cause shortage in some direction, if prices were not raised to counteract the increased demand. Third, in order to avoid this dilemma, the economic controllers might prefer to keep prices stable, and instead to ration food and clothing or to persuade people to economize their use. This course of action might be justified under certain circumstances, but it is beset with numerous difficulties. The consumers who spend less on food and clothing will have purchasing power to spare for other things. If they spend it on these other things, say luxuries, they will merely be transferring the problem of shortage there, necessitating either an extension of rationing to them or an equivalent rise in their price. Let us suppose that the latter occurs. Then a further difficulty arises. The industries producing these luxuries will be selling their goods at high prices and showing high profits. As a result, they will probably tend to expand their production ; and in the first place they may try to acquire more labour and resources, thereby enhancing the existing shortage of labour and resources elsewhere, and hampering the constructional work which finds material resources already hard to obtain. Later they may acquire more machinery and commission some constructional work, and as a result the fruits of that indirect production which is being undertaken at so much cost will tend to go into these luxury trades to a larger extent than is really warranted, instead of increasing the output of food and clothing which is so much needed. Later, when the shortage of necessaries has abated, people will spend their income on these instead of on luxuries, and the latter trades will find themselves with superfluous machinery and constructional work which is now relatively useless. If, however, all this were prevented by the placing of a veto on the expansion of the luxury trades, this would be an abandonment of the index which, under ordinary conditions, would be an approximate reflection of need; and if the practice of rationing and of arbitrary veto was adopted at all widely, the principle of economic measurement would soon be as subordinated as it was with the Building Guild, Ltd.

This type of difficulty almost invariably occurs during a war; and the rationing of one article of consumption sets up a train of effects which call for fresh rationing in other directions, and for a network of controls, until the principle of economic measurement is almost lost. If it continues for a considerable period, the whole economic system is likely to be in groping confusion. But in war-time the problem of control is actually simpler than in peace. It is a matter of concentrating on the satisfaction of a few insatiable wants, not of distributing resources to satisfy the varied needs of mankind. There is little chance, for instance, of producing munitions or uniforms in excess. The normal development work of peace-time is largely suspended and hence those particular problems are avoided. Patriotism may induce contentment with eternal plum and apple jam, whereas in normal conditions its monotonous superfluity might provoke a revolution. In this country during the war these problems of control arose very generally and in a fairly serious form, as they did also in Russia during the military communism of the first four years of the Soviet *régime*. Under some conditions, however, the dangers which we have described are likely to be greater under a *régime* of Collectivism than of Communism,[1] since in the former the inequality of income may preclude the raising of prices in time of shortage for fear of throwing the major burden on the poor, whereas, when incomes are approximately equal, the burden of a rise of prices is fairly evenly distributed.

A further danger can be illustrated from the conduct of some existing municipal enterprises. This is a danger of blurring the criterion which a measurement of costs and returns provides by allowing a department of industry to shift in devious ways some of its costs elsewhere and so to neglect them in the conduct of its activities. If it can do this, it will clearly be inclined to push its activities beyond the point which considerations of cost really warrant, and at the same time some other branch of useful work will be hampered by having to bear the transferred burden. Prof. Pigou has said: "A governmental authority . . . may charge expenses that really belong to the business against the other part of its work. A very glaring example is the practice of the L.C.C. in writing down the value of land purchased for workmen's dwellings to the value which it has, not in the general market, but as ear-marked for this particular purpose. Again, municipal tramway accounts may be given a false appearance of prosperity by the charging of expenditure upon roads, which is properly attributable to them, to the general road account."[2] In quite a number of cases municipal enterprises do not sufficiently debit their accounts with the depreciation of buildings and plant for which they are responsible, and in this way they may be unduly expanding their present activities at the expense of the future.[3]

But, in addition to these evident sins against good

[1] For the distinction *see* above, pp. 48–9.

[2] *Op. cit.*, 344–5; *Cf. also* L. Darwin, *Municipal Trading*, 232, 335–7.

[3] D. Knoop, *Princs. and Methods of Municl. Trading*, 133–44, 155–64. *Also* G. W. Jenks, *Business and the Government*, 190, 249–50, where instances are cited from economic activities of the U.S.A. Government.

book-keeping and costing, there are more subtle ways in which the mistakes might creep in unnoticed and do cumulative damage. It might be arranged for the State to grant credit or new capital to industrial groups either gratis or at exceptionally low interest-rates; in the same way that municipal enterprises are sometimes allowed to charge items of capital expenditure on to the rates.[1] If this was done, the groups in question would not be debited with the rightful share of the burden on the community which the provision of that credit involved. The same would apply if the various industrial groups and departments were not charged a competitive rent for the land they occupied. If a factory occupies a site in some favourable situation near the centre of a town, it is precluding some other factory from securing it instead. Clearly the former should not occupy the position and keep out the latter unless it can show results which justify it in so doing; and accordingly it should be charged a price which is equivalent to the deprivation it imposes on others, to induce it to evacuate if its results are inadequate to compensate the cost. A similar consideration is relevant to the necessity of charging adequate premiums to risky trades as a price for collective insurance against certain kinds of incalculable losses. To allow credit or land or insurance free to an industry would mean in many cases to subsidize inefficiency and to enable losses to be covered by continual borrowing and by special favours.

On the other hand, there is the converse danger of debiting to some industrial department costs which are properly extraneous to its economic operations and which belong to some other department. This would be equivalent to placing a tax on an industry and preventing it, through the highness of its costs, from extending its operations as far as it otherwise might do. Major Leonard Darwin has mentioned the case of charging the cost of a

[1] L. Darwin, *op. cit.*, 232; Knoop, *op. cit.*, 368-9.

municipal inspection department to a municipal gas company. " Both from the point of view of the efficiency of the inspection and on financial grounds, the inspecting departments should in every way be kept as distinct as possible from the manufacturing departments; and the cost of the inspecting department should be debited to the ordinary borough funds."[1] In some towns municipal gas and water are provided free to various other municipal institutions, as gas for street-lighting and water to public baths.[2] The same thing will occur if a department is called upon to bear the full cost of maintaining workers whom it no longer desires to employ; or if an industry is required to furnish goods at exceptionally cheap prices for some other industry or some national purpose. This apparently occurred in Russia between 1918 and 1922, when there was military requisitioning and hasty improvisation of industrial administration; and we find M. Leon Trotsky in a Thesis on Industry referring to " the practice of requisitioning the products of industry by the State, chiefly for the use of the military and transport departments, either without any payment at all or else at arbitrary prices which did not cover the cost of those products." He also mentioned " measures which employ in a mill a number of workers not proportionate to the actual productivity of the enterprise—the most expensive and irrational form of social insurance." Such " burdening of industrial enterprises by all sorts of additional expenses" he condemned, since it " undermines the possibility of an accurate mode of calculation and imposes upon the State in a semi-disguised manner an expenditure which . . . it is beyond its strength to bear."[3]

It is the consideration of dangers such as these which causes the advocate of *laissez-faire* to decry all attempts

[1] Darwin, *op. cit.*, 234–5. [2] Knoop, *op. cit.*, 127–8.

[3] *Labour Monthly*, Vol. V, No. 2, 97–9. This thesis was adopted unanimously by the Congress of the Russian Communist Party in April, 1923.

by control or by subsidies to interfere with the unconscious operations of the market. But this is an extreme opinion which is only justified if the dangers in question are unavoidable. What is important, however, in the case of the individualist is its emphasis on these dangers and on the need to avoid them by ensuring that subsidies are regarded, not as the rule, but as special cases, for which some special advantage must be adduced in defence. But it is one of the curious results of a class system that conditions tend to arise which give to the individualist particular reason for his fears. The only solution open to those who seek to remedy the effects of monopoly is to call for increasing interference with the unconscious forces of the market; and the pressure of the Labour movement in this direction in recent years has aroused the fear among many persons that, if it continues much longer, the principle of economic measurement may be completely obscured. For instance, municipal enterprises are induced to supply their services at less than cost for the benefit of the poorer sections of the community, and the activities of poor boroughs are aided by funds raised elsewhere. A demand grows for subsidies to be given to essential enterprises like housing, for national contracts to be placed, not where they can be fulfilled most cheaply, but where they will give employment, for certain things to be sold at uneconomic prices and for profits to be fixed or controlled. The measurement and calculation which is the greatest contribution of capitalist enterprise to economic organization its progeny seems likely to scorn if not to destroy. To fall between two stools is a notorious situation of undignified discomfort; and the "patching" of a monopoly system in the attempt to modify the effects of its inequalities may have such unfortunate results as to make the abolition of a monopoly system the preferable alternative. Conscious control in a classless society, on the other hand, would be free from this particular temptation, which dislike of the effects of inequality involves, though it might be troubled with those other dangers which we have attempted to describe.

But more important, perhaps, than this matter of static adjustment, is the dynamic aspect of the problem; and in this uncharted field our conclusions must be still more indefinite. Where industry is organized in large units there exists, as we have suggested elsewhere,[1] greater power to effect economic changes: a large field of industry can be organized under a new plan, and the larger unit is more able to bear the uncertainty of the change and also has less uncertainty to bear. But whether the will to make these changes is likely to be ready is another and more difficult matter. The competition of small units gives a certain fluidity which enables the man with the desire to innovate to do so and to raise himself in the place of his less venturesome rivals. This was the condition which so favoured the rapid progress of the early nineteenth century. But with the replacement of these small men by larger undertakers, bringing extensive spheres of industry under their conscious control, there is the tendency for the principle of substitution to become sluggish in its application to undertakers themselves. The large undertaker can resist displacement more easily; and there results a tendency for him to entrench himself conservatively in positions already won. If it should happen that the capitalist spirit were in this way to be crystallized into passive content, the rate of progress which the last century has led us to regard as inevitable would seriously slow down. How far, on the other hand, either a collectivist or a communist society would be likely to be creative is still more difficult to decide. Both would certainly lack much of the easy fluidity of individualism. The administrators would run the bureaucratic danger of becoming routine-

[1] *See* above, p. 163–5.

bound and unimaginative. They might be shy of facing uncertainties through timidity of opposition to the results of change and of the contumely which they risked should the dice fall for them on the wrong side. Democratic requirements might fetter them to the "average daring of the community," instead of permitting those above this average to experiment on their own.[1] Whether in conquest of these difficulties a communist society might give birth to a creative will and a spirit of progress to match the adventures of the undertakers' proudest hour is a secret as locked and barred against us as were the possibilities of capitalist enterprise to the mediæval schoolmen.

[1] *Cf.* Pigou, *op. cit.*, 349-50.

CHAPTER TWENTY-THREE

The Problems of Economic Anarchy

With the growth of the large undertaker, especially in the realm of finance, an ever larger field of activity is being brought beneath the influence of conscious control. Many of the "wastes" of unconscious undertaking operations, of which the Collectivists of thirty years ago were wont to complain so loudly, have since been eliminated in the normal course of industrial progress. But this fact must not blind us to the large fields of industry and commerce where the automatic forces of the market still rule the larger sphere; and even where the growth of deliberate monopoly has partially stabilized the home market, there still remains abundance of competition in markets overseas. Both the virtues and the failings of economic anarchy are still prominent factors in the economic world of to-day.

The chief virtue of economic anarchy is, as we have mentioned, that it gives fluidity to economic life and unfettered sway to the principle of substitution. The man who can act without restraint and has no master to whom he must be responsible has a certain bold energy about him, which the man who is not so free will lack. Under such conditions there are few limits on the daring to pioneer new paths and to experiment; and as a result innovations may follow quickly one upon the other, and if the innovator has sufficient command of resources or sufficient influence to introduce them widely, the rate of progress may be very great. But this fluidity is not purchased without a price; and the very anarchism which gives it freedom from restraint holds the vice of a certain instability.

As has been remarked in an earlier Chapter,[1] the diffusion of economic responsibility among numerous small undertakers, who are in competition with one another, introduces an important incalculable element, which brings an additional uncertainty to the undertaker's work and gives added possibility of loss and misdirection of resources. This gives possibility of serious maladjustment of resources and consequent damage both to business men and to the community.

The reason for this has often been commented upon and is not very obscure. The amount which the undertaker can market at a given price will depend, not only on the state of demand as expressed in market price, but also on the supply which his rivals attempt to market. The former he will estimate on the basis of existing prices; and even here there is much uncertainty lest the demand may alter before his goods are marketed, or the costs of the materials he uses may change. But the uncertainty introduced by the second factor is probably greater. Short of a system of espionage or the frank publication of business secrets and intentions, one can know about this scarcely anything at all. For this reason the undertaker is liable to miscalculate the amount that he can market successfully, securing a price for his output which is either below or above his anticipations.[2]

Prima facie, it would seem that these several errors of miscalculation would approximately cancel out, and that, though the burden of over-supply might fall on individual undertakers, it would not be a burden felt by the whole market. This, however, is not usually so for the following reasons. First, events continually occur which influence

[1] Chapter 3.

[2] *Cf.* Pigou, *op. cit.*, 836; D. H. Robertson, *A Study of Industrial Fluctuations*, 14, 242–3; Beveridge, *Unemployment*, 59; D. H. Macgregor, *Ind. Combinations*, 51–3.

the expectations of all the competing undertakers, and so tend to cause miscalculations to be all in the same direction. This is the case when any circumstance induces the general belief in business prosperity, and the spirit of optimism, spreading along the connecting nerves of the business world, plays upon the existing uncertainty and tempts the undertaker to overestimate the chances of gain and to be a little blind to the chances of loss.[1] Second, a new undertaker, if expectations of an expanding market have put him in an adventuring mood, will count on capturing some of the market from his rivals and succeeding to their place; and to this extent his miscalculations are likely to err on the side of excessive supply. Third, market-price will be little affected by a single undertaker's actions, if he is but one of numerous rivals; and if others are tending to overestimate the capacity of the market, he will suffer just the same from the eventual over-supply and fall of price, whether he follows their ill-placed optimism or refrains. If, therefore, there is any sign of activity on the part of rivals, this will be an argument to the individual undertaker not to stay his hand, but to speed up his output and to get into the market first, so as to share in the gains of prosperity while it lasts.[2] Other circumstances, of course—the shock to anticipations and a high level of costs—may induce an opposite mood of pessimism, and

[1] *Cf.* Pigou, *op. cit.*, 833 *seq.*; Lavington, *Trade Cycle*, 31–65; W. C. Mitchell, *Business Cycles*, 455 and 498.

[2] This was well illustrated in the shipbuilding boom of 1919. America was putting on the ocean highways large quantities of ships, hastily commissioned for war purposes. But the dominant thought in the minds of British shipbuilding interests was not the danger of the eventual over-supply, which this would occasion, but the need for increased output from British yards to prevent the gains of the "boom" period from falling to America. *The Compendium*, for instance, for May, 1919, said: "It does not follow, and must not follow, that America's increase means Britain's decrease. We must build faster than ever. . . . We want 'ships, more ships, and still more ships.'" *Cf. also* the issues of Jan., Aug. and Oct., 1919.

reaction in the reverse direction will set in. Optimism and pessimism alike will act as a rapidly spreading epidemic.

In conditions of primitive technical development this factor is not of great importance, even though production may be organized for a wide market. The commodities will be marketed soon after their production has been started, and there will be no delay involved in extensive constructional work to increase supply. As a result, errors of calculation will have had little time to bear fruit before they are corrected. But in modern machine industry it is different. Considerable time will elapse between a rise of price and the eventual response to it in supply, and the length of this interval will be a predominant factor. Not only will the actual production of the commodity itself require time; but any considerable increase in supply will only be possible after orders for new plant and constructional work have been fulfilled. Accordingly, the length of time such orders take to execute will condition the response of supply to the demand of consumers. This period of time Mr Dennis Robertson has called the "period of gestation," and he has pointed out that the longer this period the greater will be the eventual miscalculation of supply.[1] During the interval prices and profits will remain high; and this will continually stimulate new orders for constructional work and new investments, to magnify considerably the effects of the miscalculation. Further, this result will tend to be increased if, at the same time, changes in the distribution of income cause the amount spent as investments in demand for constructional goods to increase relatively to the amount spent in direct consumption; for this will tend to narrow the market for finished goods relatively to that for constructional goods.[2]

[1] Robertson, *op. cit.*, 12 *seq.*
[2] *Cf.* L. V. Birck, *Theory of Marginal Value*, 124–6.

Now, in the constructional trades, which produce things for use in transport or in other industries, there exist circumstances to magnify particularly this tendency to over-supply. Chief of these is the fact that, if there is any fluctuation at all in the activity of industry in general, the fluctuation in demand for constructional goods is likely to be markedly greater. The reason for this is that the demand for buildings and plant does not recur at frequent intervals, as does that for most commodities whose period of usefulness is short; it will only recur periodically at such times as it is required to renew or to supplement some existing stock. Bread is renewed every day or every few days; machinery, however, once purchased, will not be required again in any considerable amount for several years. Hence, if for any reason a large number of orders are concentrated at one period, the satisfaction of them will tend to abate the demand for the next few years, and a rhythmic movement of years of high demand and low demand may in this way automatically be started, the length of time from the peak of one wave to that of another being conditioned by the average length of life of constructional goods. But, for the reasons mentioned above, the supply will not content itself with adjustment to the *average* level of demand over a period of years; the supply will tend to respond to the "peak" of demand in the years of activity, and even to overshoot this mark. As a result, when the demand subsequently relapses, undertakers in this line of enterprise will find themselves with large stocks on hand which they cannot sell at the prices they expected, and heavily over-capitalized.

The same thing can be expressed in a slightly different way. A certain increase in activity in industry in general, causing a certain percentage increase in the demand for additions to the existing *stock* of plant, will involve a much greater percentage increase in the annual output of *new* plant. This is for the reason that the new additions to plant are only a fraction of the total stock of plant in use; and the need for a 10 per cent. increase in the latter may involve an 80 or 100 per cent. increase in the former. As Prof. Pigou has expressed it very plainly: "When the demand for the services of houses, ships, or rolling-stock increases or decreases by a given percentage, the demand for the production of *new* ships, houses or rolling-stock necessarily changes in much larger proportion. Thus, there is *prima facie* reason to expect that a given boom in the production of consumable goods will involve a larger (percentage) increase in the production of constructional goods."[1] Any fluctuation that there may be in other branches of the economic system will be reflected in a much greater fluctuation in the constructional trades, and the tendency to over-supply will, in their case, be considerably enhanced.[2]

There are, therefore, two principal ways in which the instability of conditions of economic anarchy are seen. First, it is seen in the tendency to a recurring condition of general over-supply beyond the point where goods can be sold at prices which yield the anticipated profits.[3] A general cheapening of prices of this kind, as distinct from

[1] *Op. cit.*, 807.

[2] This discussion leaves on one side the complicated and still unsettled question of the *causes* of a boom. The reason why an upward curve of activity starts is for our present purpose irrelevant, as is also a discussion of the reasons why the boom ends at the precise time that it does. These are chiefly matters which only inductive study can settle. We have here confined ourselves to the factors which make the disturbance, once started, as large as it is.

[3] The reason why over-supply *in this sense* is not inconsistent with Say's *Law of Markets* when properly stated is clearly shown by Prof. Pigou, *op. cit.*, 831–3; *also* D. H. Robertson, *op. cit.*, 200, 254; Beveridge, *op. cit.*, 61. Prof. Macgregor says: "Overproduction is relative to the profits of capital, not to the capacity of the consumer" (*op. cit.*, 52). *Cf. also* Marx, *Capital*, III, 292–3, 567. Mr Mitchell regards rising costs as a more important element in reducing profits than a check to selling prices (*op. cit.*, 495–503). But for our purpose it does not much matter which blade of the scissors does the cutting —rising costs or falling selling prices. Maybe it is one blade under one set of conditions, and the other under different conditions.

over-supply in specific directions, involving maladjustment, will not necessarily from the community's point of view be a disadvantage. But from the standpoint of business prosperity it is a suicidal error. When such cheapening comes as the result of an economy of costs or of the rivalry of new undertakers who are willing to receive a lower return, it may be permanent. But when it comes as the result of a general business miscalculation, the realization of the fault will tend to cause an immediate revision of business actions. The sudden realization of the full results of the expanded production will cause a sharp conflict between business anticipations and the actual facts—in a word, a crisis.[1] The shock will turn the previous optimism among business men to pessimism and timidity; and the previous errors of calculation will probably give place under the mood of the moment to their opposite. During the period of progress undertakers have been expanding their orders for materials, for labour, and for plant. Investors have been induced to lend in prospect of high returns. The high anticipated profit has been partly capitalized, partly passed on in a raising of costs—interest-charges, materials, and labour-costs. The sudden disappointment will sap the strength of the capitalist spirit—destroy the undertaker's self-confidence and his incentive to brave uncertainty. But his state of over-capitalization, both real and nominal, will have a material as well as a psychological effect in hampering his activities. Perhaps his business is top-heavy with overhead charges incurred in respect of new plant and debenture borrowings. At any rate, the deterioration in his financial position will seriously curtail the credit that bankers will be willing to advance to him to enable him to expand his business operations. The

[1] *Cf.* Lavington, *op. cit.*, 70–9: "The *actual realized yield* . . . must be lower than before, and very much lower than the extravagant anticipations of those who called the new capital equipment into being." (72).

worst cases may actually be forced into liquidation. In every way the undertaker will be induced for a period to lessen his commitments and to draw in his horns. The essence of the crisis may, in fact, be said to be that capital values and profit-expectations, based on certain monopoly conditions, are undermined by the unexpected lengths to which competition has expanded supplies and depressed prices.[1] The lowering of profits, which the individual undertaker cannot alone resist when rivals are willing to supplant him, summons united resistance when it affects all simultaneously.

Second, there will exist a tendency to specific over-supply in particular industries. If the expansion of supply were uniform in all branches of economic life, much of the gloom of prolonged depression might be avoided, and the spirit of enterprise might soon blossom again after a probation period of lowered costs and conservative business finance. Actually, however, there is no likelihood of expansion being uniform : prices and profits will rise unequally in different industries, and in response the fever of activity will rage at different temperatures. As we have seen, there are special reasons why the expansion and the eventual over-supply tends to be much greater in that group of industries which produces to meet the needs of other trades for plant and construction work ; and a boom is likely to attract economic resources into that branch of activity to a much greater extent than they will be attracted elsewhere.[2] This attraction

[1] *Cf.* W. C. Mitchell, *op. cit.*, 502–4, 575 ; T. Veblen, *Theory of Business Enterprise*, 193–241. The latter describes the crisis as caused by the divergence between the "putative" and the "actual" earning capacity of business. To this extent it is true that credit-inflation will *for the present* postpone the crisis by arresting the fall in prices and preserving the level of capitalisation ; but only at the expense of denying to the community the benefit of cheapness from expanded production.

[2] This will, in fact, be one influence which raises the cost of economic resources of all kinds for the rest of industry, and so eventually tends to narrow the margin of profit of the latter and to cause them to cancel or postpone their orders for constructional work.

of economic resources into one group of industries, to a point where their marginal usefulness is considerably below what it would be in other employments, is a disturbance of static entrepreneur adjustment which constitutes one of the chief evils in the wake of a trade boom. For perfect entrepreneur adjustment a balance needs to be maintained between the various producing groups.[1] But during periods of expansion this balance becomes definitely disturbed ; and as long as the false expectations of continued high profits remain, the maladjustment proceeds to grow worse. Sooner or later the demand for constructional goods will slacken, and the relative plethora of resources in these industries will then become apparent ; undertakers will seek to turn away as many of these resources and as much labour as they can, and " the bonds which unite different enterprises will become channels through which the depression will spread to other enterprises."[2] A check to activity in one industry will narrow the market for the rest and aggravate the tendency to general over-supply, and this will tend to be cumulative. Accordingly this maladjustment will deepen the gloom of the depression, which will continue until the fall of general prices has been effective in " shaking out " the maladjustment by transferring resources, where transfer is possible, to other uses. Any factors which retard this readjustment, such as resistance to wage-reductions in these industries or the granting of easy credits to " tide them over " the difficult period, are likely to this extent to prolong the depression. It is, however, not unlikely that under the stimulant of circumstances of especial progress, such as the rapid occurrence of inventions and widening markets, industrial recovery may succeed the depression before the maladjustment has been completely removed. If this occurs,

[1] *Cf.* above, Chapter 3.

[2] W. C. Mitchell, *op. cit.*, 473–4.

there may be more or less permanent disturbance of entrepreneur adjustment, wasting economic resources and germinating seeds of increased depression for the time when the immediate stimulants are exhausted.[1]

This recurrent tendency to a state of over-supply, both general and specific, and of declining profits, has two results which are of prime importance to all questions of applied economics. First, it acts as a powerful inducement to undertakers to combine in order to substitute some measure of conscious control for the existing anarchy, whereby they may keep supply within limits and so maintain their profits at a reasonable level. The instability of unconscious undertaking operation moves undertakers to substitute for it an increasing measure of conscious control in all cases where technical and administrative difficulties do not prevent. The fact that the era of combination followed close upon the rapid rise to prominence of the engineering, shipbuilding and metal industries and upon the beginnings of serious competition in the markets of the world seems to give some small support to this view. Second, it acts as the prime impulse to undertakers to extend their markets in new spheres so as to arrest the decline in prices and profits and capital values, and especially to find new markets for constructional goods, since it is there that the burden is most sorely felt. To this is seems reasonable to ascribe the *rationale* of modern Imperialism, whose chief features we have already described elsewhere.[2] New markets for constructional goods are principally to be sought in

[1] *Cf.* " The system . . . will work at its full capacity only on condition that the co-ordination of its interlocking processes be maintained at a faultless equilibrium. But a moderate derangement will not put it out of commission. It will work at a lower efficiency, and continue running, in spite of a very considerable amount of dislocation, as is habitually the case to-day." (T. Veblen, *Vested Interests*, 88) The extent to which industry works at less than full capacity seems to lend support to this latter statement.

[2] *Above*, Chapter 21.

development work in undeveloped countries, and this involves concessions and investments, and both of these look for an attorney in political control.

So far in our discussion the money-purchasing power of the community has been regarded as constant. The tendencies which have been described would operate even if there were no general rise of prices during the boom and if the expansion of purchasing power by means of credit advances were no more than what was absolutely necessary to permit an expansion of activity, and corresponding closely to the increased rate of production. Actually, however, the forces which stimulate trade activity, whatever they may be, set in motion influences which produce a rise in the price-level, and this reacts cumulatively on the condition of business, intensifying the undertaker's optimism by increasing his money return. This rise of price takes place for the following reasons. First, the brightness of trading prospects causes all persons who are in possession of claims to wealth, chiefly in the form of balances at the bank, to invest them in some industrial activity. Investors will place their money in industrial stocks, business-men will purchase labour and materials. People will desire to keep more of their wealth in the form of goods and less in the form of money than they have previously done, and as a result goods will generally rise in price.[1] The more prices are expected to rise, the more will this factor operate in raising them further. Second, the favourable profit-yield on business undertakings and the consequent tendency for capitalization to rise will increase effective

[1] *Cf.* J. M. Keynes, *Monetary Reform*, 75–83; *also* Marx, *Critique of Pol. Economy*, 166–83, whose doctrine that money is periodically withdrawn from circulation to form a "hoard" and in this way accentuates industrial crises, may be said to be partly an anticipation of the modern theory of real balances. Marx used this point to refute the contention of Say and James Mill that sales and purchases always tend to balance (*op. cit.*, 122–5).

demand for credit advances.[1] Third, the interest-rates on money loans will tend to lag behind any rise of prices which may occur, and hence a rising demand-price for credit-advances may be combined with an actual falling real supply-price of loans. For these reasons a large part of the trade boom which precedes a crisis will be a cumulative series of reactions between business activity and rising prices; and as long as the facility of supply of credit allows this to continue, the tendency to the cheapening of commodities owing to over-supply may be counteracted by the creation of increasing purchasing power. Before, however, this has gone very far costs are likely to be raised so rapidly as to cut into the margin of profits; and bankers, fearing either for the value of their collateral or for the safety of their cash reserves, may curtail their issue of credit and bring the upward career of prices to a close. But the longer the leash that has been previously given to business activity by the facility of credit, the more matured will be the over-supply, both specific and general, which eventually brings a crisis; and the factors which aided the rise of prices of the boom period will work in a converse direction in accentuating the fall in prices during the depression.

Accordingly, the proposal has been recently advanced to mitigate these fluctuations by superimposing an element of conscious control on the economic anarchy of the industrial system; and by this it is hoped to secure the advantage of the former without dispensing with the virtues of the latter. It is intended that the instrument of this control should be the central bank, which, in consultation with the Treasury, should govern its bank-rate and credit policy with the aim of promptly counteracting any deviation of prices from the normal. Some of the advocates of this policy, however, seem to have spoilt their case by making for it too ambitious claims; and

[1] *Cf.* Veblen, *op. cit.*, 193.

assuming that the principal cause of business fluctuations lies in monetary influences, they have asserted that their policy will eliminate these fluctuations almost entirely. This assumption, however, does not seem warranted. To discuss the possibilities of such a scheme, though tempting, would scarcely be in place here. But one may be permitted, perhaps, a passing comment. A wise credit policy could certainly remove that part of existing fluctuating which is due to the third of the monetary factors which we have mentioned—the slowness of the adaptation of interest-rates. In doing so it might help to remove the effects of the first factor—the desire to keep wealth in the form of goods instead of in money. But the second cause—fluctuations in the demand for loans—might offer a stubborn resistance to the removal of its influence. The intensity and elasticity of the demand for credit will depend very much on business expectations ; and to this extent will be entangled with the non-monetary factors which we have been describing. Since the elasticity of demand for credit may vary widely from time to time with business expectations, it may be a matter of great delicacy to judge the precise rate of loan-interest which would check the inflation of credit-loans. Whereas at one time a rise of 1 per cent. might be effective largely by its effect on business psychology and hence on the demand for credit, in other circumstances a rise of 20 per cent. might have little result.

One must conclude, therefore, that, although such a policy, if it could be wisely enforced, would certainly diminish industrial fluctuations, it has yet to be shown that it would remove the major part of existing instability. So long as there remained factors which promoted industrial expansion, some fluctuation would probably remain. Any influence which by decreasing costs or expanding demand widened the margin of profits would tend to stimulate business activity with its possibility of over-supply and subsequent relapse. Even without such special influences there might be a pronounced industrial rhythm, moving with a recurrent waxing and waning of the profit-expectation of business men. It is difficult to see how this amount of fluctuation could be eliminated without removing the possibility of industrial expansion itself. Monetary and credit influences certainly accentuate industrial crisis, but there seems no reason to think that they are its sole cause.[1]

But whichever of the various suggestions to remedy this instability be adopted—whether credit control, or the formation of international consortiums to regulate the purchase of staple commodities,[2] or the action of governments—it is likely that the future will see economic anarchy more and more encroached upon by forms of conscious control. This likelihood seems to be reinforced by the tendencies of those groups whose social influence is greatest. On the one hand is the tendency of the undertaking class to avoid the depredations of recurring over-supply and falling profits; and to this end they turn towards some extension of collective control under bodies of their own directing. On the other hand is the tendency of the working class, as it grows in strength, to appeal to some form of collective organization whereby may be removed the instability which has so heavy an incidence on themselves. At the same time they strive to bring such instruments of collective control under their own direction, to use them in redressing the effects of economic monopoly; and this control, as was noticed in the previous Chapter, tends to be exercised from the circumstances of the case mainly in negative ways which destroy the principle of economic measurement. Whether these two tendencies are likely to clash in open warfare, or to blend by a series of compromises, devised in the interest

[1] *Cf.* Pigou in *Is Unemployment Inevitable ?*, 97–8.
[2] *Cf.* E. M. H. Lloyd, *Stabilization*, 81–90, 116–7.

of forms of collective control in which both shall share, is still an open question that rests on the outcome of a delicate balance of forces to decide. If the first alternative is to be expected, economic issues become subordinated to the political exigencies of a class struggle ; and the fundamental issue becomes as much one of power and control as when at the close of mediævalism the future of enterprise rested on whether power was to stay with the feudal lord and the *negotiator ecclesiae* or to pass to the upstart and adventurous moneyed men.[1] If, however, the compromise solution were to occur, one thing seems fairly certain. Capitalist enterprise would probably have surrendered sufficient by the arrangement to make it as unlike the undertaking of the eighteenth and nineteenth centuries as the latter was from feudalism, out of which it came. A state in which the labourers, in return for a certain stability and status and a modicum of control, acquiesced in the regulation of economic activities so as to limit the rate of expansion and maintain profits at a stable level, would be capitalism shaped to the mould of status and immobility, characteristic of feudal society. To discuss such an eventuality is, of course, mere speculation which can hope for no scientific answer. But it is not unreasonable, perhaps, to sketch it as a possible continuation of certain lines which in the world before us we see already drawn.

It is, at any rate, curious that the nineteenth century which seemed to have solved the problem of economic progress for us should have developed from the very instability which gave it virtue new tendencies to reopen the whole vexed problem over again.

[1] *See* above, Chapters 13 and 14

CHAPTER TWENTY-FOUR

Crossways

Almost every century has had its flatterers to tell it of its greatness as a turning point in history; and this may well make one a trifle sceptical of those who insist that the politics of the present hold in the balance the fate of a whole civilization and a whole epoch. Nevertheless, it cannot fail to strike one how perplexing and how complex is the choice which lies before us to-day. One cannot avoid the recognition, even though it be a little shocking, that this choice touches issues which are more nakedly fundamental to the economic life of social man than is usual in political strife. It is the duty of economic theory to help to dissolve the bewildering confusion of this choice of ways by setting before the mind a few main guiding lines; and to this end one can group these alternatives under five main heads. Each takes its starting point in a different assumption about the capitalist undertaker, and all seem to be rooted in some social tendency to which modern industrialism has given birth.

First is the group of opinion which welcomes the newest developments of capitalist undertaking as forward steps in the progress of specialization and in the evolution of higher types of control. The combine may involve certain disadvantages, but its monopolistic excesses are outweighed by the greater efficiency of this new method of integration. Imperialism is the expression of the passion for economic progress, which extends the blessings of modern industrial methods to the backward countries of the earth. These developments, it is thought, it would be unwise for the State to hamper, except to prune their anti-social excesses and to reconcile the desires of the growing Labour movement with the requirements of the existing system.

Second is the Collectivist tendency, which welcomes industrial concentration as a step away from the economic anarchy of the nineteenth century towards a more perfect integration, and at the same time would bring these concentrated undertakings more and more within the scope of State operation and control. Coupled with this is the belief that this control should be used in the collective interest to diminish inequality. Some Socialists even go further and believe that this remedial action could be extended until inequality finally disappeared in a classless community.

Third is the attitude of the Liberal, who in loyalty to his traditions of the nineteenth century views with dismay the disturbing developments of recent years. These developments—trusts, Imperialism, and the Labour movement alike—he attempts to counter by encouraging those conditions of economic liberty which in the nineteenth century were the strength of economic progress. His attitude towards the participation of the State in economic affairs is generally one of hostility, since it is likely to hamper this liberty; and he likewise deplores that tampering with the free play of economic measurement which the Labour movement in its zeal for reform of inequality tends to advocate. At the same time many hover between this desire to re-establish economic liberty and the semi-Collectivist view of the neo-Liberal, who strives to curb the excesses of that liberty by such measures as credit control. The two standpoints, however, are not necessarily in contradiction. *Laissez-faire* always acknowledged the need for some collective action to set bounds to the play of automatic forces, and the younger school merely seeks to bound that freedom by such elements of collective supervision as the changed needs of twentieth-century industrialism require. It is significant that the specific form of collective control which is at present advocated—that of credit control—has, not the State, but the Bank of England as its instrument, and proposes not to interfere with relative prices but to stabilize their average level.

Fourth, we find the Distributivists who think that history took the wrong turning when it embarked on capitalist enterprise, and who desire by a diffusion of property to re-establish a condition of classless individualism. Before the war we saw this as merely an interesting intellectual sortie on the part of critics of the modern age, like Mr Chesterton and Mr Belloc, Mr Penty and Mr Orage. But since the war it has been given a political significance by the rise of peasant movements in Central Europe, whose aims seem to be of this kind. Should their attack on modern industrialism gather strength in the future, this re-establishment of diffused property-owning may well become a political issue with which a reckoning will have to be made.

Fifth is the doctrine of Communism which regards capitalist undertaking, though a progressive force in its day, as a system which is becoming progressively less able to satisfy the demands of entrepreneur adjustment; and as reasons for this it adduces the effects of that class monopoly on which the system is raised—trusts, Imperialism and the class struggle. Accordingly, it seeks to divert the Labour movement from reconciliation with the existing system, and from reliance on the aid of the existing State, which it regards as the instrument of the dominant class. Instead, it desires to rally the Labour movement to attack class monopoly itself, and then, on its abolition, to organize economic life through new instruments of a classless community.

Each of these policies rests on a different assumption concerning the undertaker. The first assumes that capitalist undertaking fulfils entrepreneur requirements more adequately than an alternative system could, and that it will probably continue to do so in future. The Collectivist assumes that collective is preferable to individual undertaking, and that inequality is undesirable when it is not in the interests of economic efficiency. The Liberal assumes that capitalist undertaking under the conditions which ruled in its heyday in the nineteenth century is the best form of enterprise which can be devised; and he further regards the developments of recent years as relatively unimportant, and sees no reason why their excesses should not be easily withstood. The fourth and fifth policies both consider some alternative system of enterprise as preferable to that which exists at present.[1]

[1] It is important to notice that the second tendency—the Collectivist —may travel parallel with the first through a series of compromises, whereby both parties co-operate on such collective control as both agree upon, and each abandons those extreme proposals over which there is antagonism. The one party, for instance, might modify its claims to high profits and unfettered monopoly power, while the other party consented to forgo its attack on class monopoly in favour of more moderate courses. The merging of the two paths might even be effected by the *force majeure* of the first tendency, if its supporters had sufficient influence over the State and hence over schemes of State control. There seems to have been a distinct tendency for this to happen where Labour Parties have faced the practical problems of Parliamentary office; as, for instance, the Social Democrats in Germany and Austria, where the compromise has, in fact, been almost entirely in favour of the first policy. This possibility arises from the very nature of the situation. For, in introducing his experiments in State control, the Collectivist still has to rely very heavily on capitalist undertaking (*e.g.*, for loans) and must, therefore, take no action which will hamper the efficiency of individual undertaking in general. In addition, the personnel of the State will be mainly composed of persons drawn from the propertied class, and hence anxious to maintain the privileges of that class. It is to avoid this eventuality that the fifth policy advocates the tactic of the class struggle—the subordination of all other considerations to the primary objective of seizing supreme power. This policy is based on the Marxian theory which stresses the character of class monopoly. At the end of last century, however, many Marxian theorists on the continent, led by Edouard Bernstein, started what has

In this embarrassing choice of ways economics in its present condition can afford us little aid. In so far, indeed, as it has lent to applied economics a theory of the undertaker, its guidance has been definitely misleading. For, it has tended to fill the gap by a theory of capitalist undertaking which draws its main assumptions from a society of classless individualism ; and as a result it has inclined its weight uncritically towards support of the first or the third tendency. It is, therefore, scarcely to be marvelled that applied economics should have been criticized as an unscientific system of apologetics—as evidence of the parentage of the wish to the thought.

But another obstacle bars our way to a clearer vision of the problem. Not only is our approach to the matter encumbered by specious generalizations, based on so-called " evidence " either of success or of failure of alternative forms of enterprise—generalizations which are mostly as worthless as were the sweeping judgments made on the early Joint Stock Companies ; but a method of investigation, bearing all the marks of science, has already led us in pursuit of a false scent. This method seeks to elucidate the matter by examining each industry separately to discover how far in that department of economic life capitalist undertaking or some alternative is best likely to solve the problem of industrial administration. In this way the Sankey Commission of 1919 attempted to adjudicate on the future of the mining industry ; and it is a method which has all the lustre of scientific experimentation, and is usually welcomed very readily by Collectivists. As usually employed, however, it is a wrong method—or, let us say more mildly, it is singularly incomplete. It involves, indeed, in a quite blatant form

been known as the Revisionist movement. They claimed that modern developments were not leading to the rapid concentration of capital, to an intensification of the class struggle and of industrial crises, as Marx had prophesied ; and accordingly, while still calling themselves Marxians, they abandoned the fifth policy in favour of the second.

the fallacy of composition ; for, if the theory of monopoly expounded here contains any truth, some of the principal effects of a system of enterprise attach to the economic system as a *whole*, not to one *part* of it *alone*. These general effects of a system of enterprise may not be apparent in one case, even though they may become the dominant consideration when that single case is compounded with others into a whole system. For instance, certain measures beneficial to economic welfare may be inexpedient under a general system of capitalist undertaking, because they would diminish the accumulation of capital ; and one of the chief advantages of a general adoption of collective saving and investment—an advantage too small in a single case to be apparent—might be that it permitted these beneficial measures to be adopted. Again, the existence of capitalist undertaking as the dominant feature of economic life may have certain effects on the trade cycle, on imperialist policy, on the growth and nature of a labour movement, on the spirit of enterprise, and on the nature and policy of the State ; but the existence of capitalist undertaking in one industry alone would probably have none of these wider effects. It will follow that, according as these wider effects are in the aggregate either evil or good, the piecemeal method of approach will be either unduly favourable or unfavourable to the *status quo*, because in each department of investigation it assumes conditions elsewhere to remain unchanged. To defend or to oppose capitalist undertaking, therefore, on principle, and to support a certain policy for an industry, even though the circumstances of that one case alone do not justify it, is not so irrational as certain empiricists scornfully maintain.

These pitfalls a satisfactory theory of undertaking must carefully avoid, and the construction of such a theory, really suited to the phenomena it seeks to analyse, is the most urgent task which lies before us in the future. In addition, if the future is to see some small or large measure of economic control replace economic anarchy, there will be need for the guidance of a developed theory of the entrepreneur function. This must be clearly separated from the theory of the capitalist undertaker, with which it has been so lamentably confused, and must be suited to form the nucleus of a kind of new Cameralism—a science of community-housekeeping which shall be more comprehensive than the political economy of the past. The keystones of this structure will be the principles of economic calculation, of economic measurement, and of economic substitution.

With regard to the static entrepreneur requirements our way is already much lighter. The shortcomings of capitalist undertaking in this respect are fairly clear. The dangers which beset any alternative system of enterprise can also be moderately well discerned; and the avoidance of them seems mainly an administrative problem, requiring a much closer attention to a science of administration than has hitherto been seen. To complete the task requires a detailed study of actual examples of such alternatives, to discover when and why those mistakes tend to occur. But in the matter of social progress we are still left groping in darkness. One hears much said of "enterprise" and "initiative," but little is known of what they mean. The importance of a "spirit of enterprise" to social progress we have been able in this present work to emphasize, as also its dependence on the complex texture of the social organism. But of what precisely this "spirit of enterprise" consists, or on what its precious quality depends, we are as yet unable to tell. It is as elusive as the subtle quality which the Germans call *Stimmung*. What exact psychological quality in the undertaker of the nineteenth century favoured him as an engine of change? What conditions promote this quality, and what conditions cause it to wither? Is the pride of monopoly and the incentive of its spoils the essential stimulus to this bold adventuring spirit, or could the spirit be made to thrive in a non-monopolistic *régime?* Questions like these cannot at present be answered with assurance, and until the material is collected for their answer, the field of applied economics will remain a little barren. Though his divine right may have been shaken, the Entrepreneur Myth as a limited monarch may continue to reign over a large part of his realm.

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