The Fallacy of Saving

A Study in Economics

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Published 1892
London: Swan Sonnenschein & Co.
New York: Charles Scribner's Sons
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Digital issue 2022
by grundskyld.dk

John M. Robertson, Author of
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Let us not confound the statement that human interests are at one with the statement that class interests are at one. The latter I believe to be as false as the former is true, and, moreover, to be one of those plausible optimist fallacies against which it especially behoves us in the present day to be on our guard." —
Cairnes

Preface.

The following essay is an expansion of one written several years ago, and recently read to the Political Economy Circle of the National Liberal Club. The character of the criticism it then met with from some of the most competent members removed any hesitation I might formerly have felt as to the chance of my being right in an argument which will strike most readers at first sight as a strange paradox, and which runs counter not only to the standard authorities, but to the views of many of the younger economists who are supposed to have thrown off the old "orthodoxy." The trained economists of the National Liberal Club, to my thinking, did not really defend the received economic doctrine of saving at all: they defended something else. And yet, while the received doctrine stands thus naked to criticism, I find that when a young economist presses the criticism he is made to suffer for it by exclusion from educational posts which are in the gift of adherents of the orthodox view. Having personally nothing to fear in this way, I feel the more bound to press the true doctrine, as I regard it, on public attention. I would preface my exposition, however, with an appeal to the candour and leniency alike of economic students and general readers, in consideration of the difficulty which attends all rectifications of abstract theory, and efforts at new economic analysis in perhaps a special degree.

As regards the practical solution propounded in the Second Part, I wish it to be noted that it is evolved as a strict economic solution of the problem led up to in the First, and, though it coincides with some proposals classified as Socialistic, is no a priori application of any abstract theory of society, and does not stand or fall with any such theory. In this connection I am glad to see that a widening hearing is being won for the doctrine of a naturalist as distinguished from an idealist treatment of social problems. This doctrine has been admirably put by a recent essayist, whose words I have as much pleasure in quoting as in endorsing:

"The solution which remains to be considered, and which the course of the argument has gradually brought into view, is the doctrine of State-control or State-regulation of industry accord-ing to the best ideas and knowledge attainable at the time. This, in distinction from the others, may be called the political solution. It is untouched by any of the arguments that have been fatal to the rest. In essence, it is the doctrine that has been instinctively acted upon both in ancient and modern States. When a mistaken industrial policy was pursued in the past, this was not because the State failed to recognise the limits of its own general sphere of action, but because it was ignorant of some particular law of economics. The remedy is not to exclude as many industrial questions as possible from the sphere of State-action, but to gain the most accurate knowledge of the conditions of particular problems, and then to apply it both negatively and positively, and not simply for the maintenance of prosperity, but for the transformation of the industrial system itself. This does not imply State-ownership of all capital, which is the Socialistic solution, but it implies that no limit shall be recognised to the action of the State upon industry except the knowledge that action would be injurious to the Commonwealth. Where there is doubt, there may be action or abstinence from action, according to the probabilities of the case. At a time like the present, when the industrial system is comparatively plastic, the bias ought to be in favour of action."[1]

That may be taken as the political standpoint of the following treatise.

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[1] Art. *Politics and Industry*, by Thomas Whittaker, in Macmillan's Magazine for January, 1892.

Contents.

PART I— THE FALLACY.

Chapter I—The Vogue of the Fallacy

Throughout the bulk of the literature of modern political economy, down to recent years, there runs the teaching, explicit or implicit, that the practice of parsimony by all and sundry is the surest way to prosperity not only for the savers singly but for the community to which they belong. We have the doctrine very plainly stated in the late Professor Bonamy Price's *Chapters on Practical Political Economy*:

> "The man who saves, be he prince or peasant, is the benefactor of his country; for it is capital which bestows all necessaries and all comforts, which rescues population from poverty, which sustains and increases their numbers. Nothing can be more fatal to the happiness of a people than to bring profit into discredit."[1]

Here, it will be noted, the economist expresses him as if all saving were made out of traders' profits; but it is not to be supposed, even if he had not made his advice universal, that he wanted to restrict the practice of saving to the profit-makers. He is repeating a standing economic doctrine, which pronounces all saving by individuals to be a public benefit.

On all fours with this view, of course, is the opinion that if only people in general would be "thrifty," in the sense of "saving" a good deal of their weekly or annual income, poverty would be sure to lessen proportionately, or even disproportionately. This is implied in Mr. Spencer's censure of the English masses for their "improvidence;" his idea being, not simply that they tend to have more children than they can support, but that by not saving some of their wages all round they as a class throw away some of their bread and butter. For it is assumed, as we shall see in detail, by economists of most schools, that the process of saving money means the accumulation of wealth in the full sense of the term. Thus we find M. Leroy Beaulieu, a leading French economist, in his recent work on the State, remarking that "a few moments of imprudence," on the part of a speculative legatee, "may be enough to endanger, or even to destroy, wealth which it has taken the labour and pain of years, it may

[1] Second Edition, p. 128.

be of centuries, to amass."[1] M. Beaulieu is here evidently thinking of mere money accumulations, and the dispersal of such accumulations by bad speculations in stock. Yet even to the ordinary unscientific citizen it must surely be clear enough, on reflection, that all that happens is a passing of "claim to wealth" from one hand to others, and that there is no destruction of anything whatever. The same reflection is set up by various passages in a Utopistic novel—now perhaps forgotten, but displaying a considerable amount of freshness of thought, with a good deal of old prejudice—which was published some nineteen years ago. The novelist, not content with endorsing the capitalistic form of society as morally good, thus discourses on economics:—

> "Capital is stored industry. As the coal-beds, to which England owed its greatness until their approaching exhaustion" [the novel is an anticipation of Looking Backward], "led to the discovery of something more efficient, represented millions of years of stored sun-power, so capital represents the accumulated toil of ages.[2]

And again, in a description of a public meeting in the future Jerusalem, we have this:—

> "On this platform sat the Committee and a large assemblage of the principal members of the Stock Exchange, the heads of all the great mercantile houses, and the governing chiefs of the Jewish people. It was an assembly representative of the world's wealth of accumulated industry and realised property."[3]

This is not the writing of a professed economist, but we shall see that it is largely in harmony with the teaching of many professed economists; and it becomes seriously necessary to prove, though many readers may sec it at once, that the "accumulated industry" and "realised property" spoken of are pure chimeras. "Realised property" in this context, if there is any meaning in words, should be tangible property—lands, or goods, or bullion, or houses, or cattle, or valu-

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[1] *The Modem State in Relation to Society and the Individual*, Eng. trans., p. 9.

[2] *By and By: An Historical Romance of the Future*, by Edward Maitland, author of *The Pilgrim and the Shrine*, etc., 1873, vol. ii., p. 28.

[3] lb., p. 186.

able objects—and not mere money-title. No doubt it is customary to speak of a man as "realising" his property when he sells it for money and has the price standing at his credit in his bank account; and it is very suggestive of the gift of mankind for conventional fiction, that a treatment of property which consists in getting instead of it the right to have certain figures marked on a banker's book should be called "realising," while the process of exchanging that right for a house is not so described. But Mr. Maitland's analogy about coal would be meaningless if he did not signify by "realised property" something else than the abstract money credit received for giving away concrete property. His words point to genuine, useful property, as distinct from even coin or bullion. But in the nature of the case, such property is not represented by the money wealth of investors in general. It might be argued to exist in the case of a railway company; but even there the main part of the real wealth is the land, which is in no sense "accumulated industry," and the plant, which is always wearing away instead of accumulating, and represents at any given moment the product of a few years' industry at most. Mr. Maitland had not learned the lesson, accepted by John Mill from Dr. Chalmers, that the greater part of the existing wealth of any nation is produced within the current year, as is seen in the case of the recuperation of a country after a war.[1] That, however, is only part of the blunder. The novelist shows that he knows of the existence of National Debts, and implies that the capital of his capitalists largely consists in such securities. He is thus committed to saying that the eight hundred millions of English debt, notoriously owing for old loans spent in processes of destruction of wealth and life, represent so much "accumulated industry" and "realised property," as coal represents stored sunlight, capable of yielding so much heat and energy. This is tolerably absurd; and yet, as we shall see, it cannot be taken for granted that even economists will admit as much. Many of them still reason as if the National Debt represented so much accumulated product of labour, so much actual "wealth."

The novelist from whom I have quoted, agreeing with the mass of the economists in his notion of capital, if not in his way of expressing it, lays down one proposition which, as it happens, coincides with

[1] Mill's *Principles of Political Economy*, B. [., Ch. v., Sec. 7.

past economic teaching but not with present. "To tax capital," he says in the passage first above quoted from, "is to tax wages, which are paid out of capital." Modern economists have abandoned this view. And yet it is on the face of it distinctly more plausible, false as it is, than the formulas about the "accumulated industry" and "realised property" of investors' money-claims. "Wages" are often "paid" out of "capital." Curiously, the economists have abandoned the plausible error without abandoning a correlative error which is hardly at all plausible to plain common-sense. They have all now given up the doctrine of a "wages fund," and yet most of them continue to speak as if saved "capital," that is, money-claim, were really a "fund," the lessening of which would be a deprivation to the community at large. Professor Sidgwick in his latest work, a careful and thoughtful treatise on politics, says of a graduated income tax that "the serious objection to such a measure lies in the danger of economic loss to the whole community caused by checking accumulation or driving capital from the country.[1] This might be supposed to mean something different from Mr. Maitland's doctrine that money capital is "accumulated industry;" but Professor Sidgwick goes on to show that he too really has such an idea. He speaks again[2] still more explicitly of the motives that urge men to "produce and accumulate wealth," as if saving money from income meant the accumulating of that which is produced; and of the probable "bad effect"[3] of a heavy tax on inheritances in "diminishing the inducements of prospective testators to industry and thrift," as if money thrift were as truly productive, from the point of view of the community, as industry. In taking up these positions, as we shall see later, Professor Sidgwick is really retrograding from a much more rational position reached by him in his previous treatise on economics, so that it becomes more and more plainly necessary to combat the delusion to which he now gives countenance.

I do not anticipate, however, that the main difficulty for most readers will be over this form of the "saving" fallacy, taken singly. I apprehend that many will readily acquiesce in my thesis that the

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[1] *The Element of Politics*, p. 173.
[2] Page 176.
[3] Page 177.

saving of money from income, and the accumulation of credits, is merely a saving of claim to wealth; that such claim is not at all represented by actual wealth of any sort at present prices; that an attempt to exchange the whole mass of money capital or bankers' credits for actual property, movable or tangible, would so immensely raise prices as to prove clearly the abstract nature of the capital in question; and that instead of representing "accumulated industry," the mass of capital is rather a potentiality of producing new wealth by setting in motion future labour, an extremely different thing. These propositions, I think, will recommend themselves to most open-minded people who are not already hypnotised by conventional doctrines. Such readers may even, I imagine, be not unready to concede that, if the production of new wealth is thus dependent on saved money capital in the sense only that the proffer of abstract or moral claim to wealth suffices to set labour in motion, then labour may conceivably be set in motion to a much greater extent without the intervention of saved claim-to-wealth at all. At least, it seems pretty obvious that if all the members of a small community agreed to help in production of some sort, doing services all round as seemed best from the common point of view, they might accumulate durable results of industry, as well as produce a sufficiency of the more perishable products, to an indefinite extent, without any individual accumulation of claim to the property and services of the rest.

But just here the problem may easily be obscured by the suggestion, offered afresh, that in a competitive society like ours the claim-to-wealth of the capitalist represents just that right to accumulated products which in the imagined commune society would be held to vest in each member equally. Though it before seemed clear that the saved claim-to-wealth was not a saved mass of products at all, it would now seem less clear. And even if the ordinary economists did not argue that saved money-claim was saved products; even if Professor Sidgwick should abandon his plainly erroneous description of the process of saving, he and the others might still perplex the ingenuous student by using the old argument that in our competitive society it is "capital" (in one sense) that "feeds" and clothes and houses labour, and "capital" (in another sense) that "employs" and "pays" labour; and that accordingly "capital " (in yet another sense) must needs be saved in great masses to keep our society going, and the more the saved capital the better it must be for the workers. And this is what I call the Fallacy of Saving.

How far the fallacy rests on or is fostered by shifting definitions of capital, will appear in the course of our examination of the reigning doctrines. But it will be well at the outset to take note that while the term "capital" has in practice tended more and more to signify in particular not plant or goods, but money-credit or claim on bankers' books, or claim in the shape of debentures, most economists have continued to speak of it in argument as if it strictly signified plant and stock in trade, while tacitly employing the term whenever convenient in the other sense. It is not difficult to confute the "saving" doctrine in terms of the avowed definitions of capital, especially in the case of the earlier economists; but when so confuted the maintainers of the doctrine have only to shift their ground in order to open the discussion afresh. We must accordingly hunt down singly the different conceptions involved.

Equally necessary is it to go warily into the other side of the fallacy, namely, the notion that by abstaining as far as possible from consumption all round, people will promote industry all round. Here again it might seem as if the delusion were too gross to have any wide acceptance. Industry is a matter of supplying markets, and the employing class is always speaking of the importance of finding new markets. Not a few of our wars have been made at their instigation, to the end of forcibly opening such markets. And yet not only the "orthodox economists" but this very employing class habitually reason on the assumption that industry depends for its maintenance on abstinence from consumption, that is, the restriction of the market demand for goods. They do not merely recommend such abstinence to a limited class as a means of providing for the future by securing a claim over the majority: they urge it on all, and habitually speak as if everybody might restrict consumption without restricting the employment of labour; as if everybody might accumulate claim over the services of everybody else, and so secure all round the advantages that are enjoyed by the few who at present accumulate claim over the services of the many. This, I say, seems a sufficiently flagrant delusion; and yet there can be no question about its vogue. Either the advocates of thrift realise in their hearts that the principle can only advantage the few as against the many, and are thus putting forward as a panacea what they know cannot be a panacea, or they are sincerely possessed by the delusion I have specified. One comes, of course, to the latter conclusion. That such a delusion should exist, is unhappily only too easily explained. Like popular delusions of all kinds, it rests primarily on an unenlightened self-interest. A man wants to "save" in order to advantage himself; and when he has gained his advantage he naturally wants to lay on the less fortunate the blame of their disadvantage. They might all, he argues, do as he has done. In the same way he instinctively wants to believe that in gaining his advantage he has really been benefiting the rest—that his saving, his non-consumption, has given them employment and promoted trade generally. Thus it comes that a doctrine almost nakedly absurd in a plain statement becomes the creed of a whole class, who are able, of course, to fortify their creed by obscuring the issues, which are numerous and, in designing or misguided hands, complex. A doctrine thus resting on a strongly-felt self-interest must obviously be hard to overthrow; and if the overthrow is to be accomplished at all, it must be by a systematic attack all along the economic line.

I propose then, with a view to final demonstration, to go methodically over the ground, tracking the economic doctrine of Saving step by step as closely as may be in the compass of an essay that shall not be a "great evil." The different forms of the fallacy, as I regard it, are always tending to merge into one another as the argument is pushed against one or another; and only a close analysis can dispose of the entire case. There are some, I hope, who will not refuse to be at that amount of trouble to clear up for themselves a problem which lies at the root of the great sociological issues of our time. For this is not an inquiry into the mere metaphysics of economics, like some very able and indeed intellectually stimulating treatises of recent years, but a practical inquiry in the strictest sense of the term. The fallacy alleged and impugned is a fallacy not merely of speculation but of conduct—a fallacy which must, I think, be rectified in speculation before men will in any numbers make up their minds to rectify it in conduct, and which must be rectified in conduct before our social system can to any satisfying extent be soundly reconstructed.

Chapter II—The Contradictions of Adam Smith.

We are to examine, then, the standing economic doctrine that "parsimony," or "thrift," or the "saving" of money out of income, conduces to the wellbeing not only of him who practises it, but of the entire community in an industrial country such as ours. The common ground for this belief is sufficiently obvious. It being clear that the individual who "saves money" acquires an advantage over his neighbours who do not, it is at least as natural to prescribe the universal adoption of his plan as it once was to assume that the nation with most gold and silver was the wealthiest nation, seeing that the man with most gold and silver was the wealthiest man. And whereas the rise of modern industry set up conditions that led men to look into and to challenge the notion that much bullion made a country rich, those very conditions at first tended to strengthen the notion that "saving" on the part of individuals really did tend to do so. In Adam Smith, who has done most to establish the belief, the bullion fallacy is rejected, and the doctrine of saving enforced, in the same pages; just as it was in Turgot, whom he so closely followed in time. Smith saw that the accumulation of savings in the hands of bankers in his own country had, under certain conditions, promoted production alike of food and manufactures; and, anxious to justify the freeing of industry from ail restraints, he argued that under a free system the natural tendency of the majority to save money would infallibly secure endless commercial prosperity. But the argument,[1] in which the wish was father to the thought, is the most superficial and inconsistent part of the *Wealth of Nations*.

Smith had a healthy preference for industrious people over idlers, and his advocacy of saving takes to a large extent the shape of discrediting outlay which maintains and multiplies "unproductive"[2] people, as superfluous domestic servants, rather than productive artificers. The average spendthrift, he notes, feeds horses and dogs, idle friends and half-idle servants; whereas saved money, put in the bank, goes to employ labourers who create objects of value in return for

[1] B. II. ch. iii.

[2] Thus defined, the term, otherwise objectionable, may be allowed currency in the present connection.

what they consume. Thus far, of course, the statement is perfectly just, save in so far as (a) the question of the desirableness of horses and dogs as wealth is overlooked, (b) the question of idle living in general is evaded, and (c) the question is begged as to the destination of the money put in the bank. It does not seem to occur to Smith that it might be borrowed by a spendthrift. There remains the general truth that the action of the spendthrift tends in part to turn activity, in the case of those he employs, in unproductive rather than in productive directions; and that he who multiplies menials is tending so far to limit useful industry. But even this general truth is not studied in its relations to other facts; and it is obvious that if it be not proved that the money put in the bank will secure the employment of labourers who would otherwise be unemployed, the correlative facts of the case may be such as to destroy the moral force even of the appeal against employing menials. Let us examine further.

In taking it for granted that the money saved and invested will of a certainty secure the employment of labour, Smith was assuming that it is always profitable for producers to extend their production; since if this be not so, the money put in the bank will not always be borrowed. Now, in order that it shall be always profitable to extend production, we must have one of two conditions: either (1) a stationary or nearly stationary population must be always increasing its consumption, or (2) the population must itself be constantly and rapidly increasing, so that the demand for necessaries is always extending. But the first of these alternatives is excluded by Smith's own argument and precept. A constant increase of consumption among a stationary population would mean the reverse of that parsimony on which he declares national prosperity to depend. He must therefore look, for that increasing consumption which shall make possible the continual increase of production, to the simple increase in the numbers of the people. That is to say, the proper and certain' destination of saved capital is mainly the employment of labourers in producing either such articles as frugal labourers consume, or things which facilitate the production of these.

Now, Smith had alleged not only that the majority, at least of well-to-do people, practised saving, but that the more they saved the more would industry extend, because—and here the argument is curiously inverted—the wants of mankind are insatiable. He was thus virtually predicating, if anything, the possibility of an indefinitely rapid increase of population within the limits of biological possibility (which he knew to be wide), conditional only on the assiduous "saving; of money" by the majority. This very saving of money or income, however, had been already defined by Smith to be in reality a saving of products—an abstinence from consumption—bringing it about that the products abstained from were consumed by productive people, employed by the lending of the money saved. "The consumption is the same, but the consumers are different"—i.e., useful labourers instead of domestics, when the saver was a member of the upper classes. But when the majority are productive labourers, who are to be the consumers of their savings? Apparently the class of the babe unborn.

Even in laying down his proposition, Smith reveals the fallacy of his contrast between the spender and the saver. The spender's "revenue, we shall suppose, is paid him in money. Had he spent the whole, the food, clothing, and lodging which the whole could have purchased, would have been distributed among" the "idle guests and menial servants." But by his saving some as capital, "the food, clothing, and lodging which may be purchased with it, are necessarily reserved" for the "labourers, manufacturers, and artificers." Now, it is very clear that in the latter case the process can only continue if the things produced by the labourers are bought; and in the terms of Smith's doctrine there ought to be nobody to buy them, save in so far as they represent mere necessaries for the fresh members of the population. But the spendthrift provides better than anybody else for this mere consumption of necessaries, since his guests and servants must eat and will waste and he is thus actually facilitating for the saver the process of profitable production. Further, if there be a moral objection to his employing servants and feeding idlers, the correction of his conduct would plainly consist in his buying different services. "The consumption is the same." Then, instead of saving, he has only to buy chairs and tables and houses, and the right people will be fed, inasmuch as the unemployed menials will tend to drift into industry. This line, we shall find, was later actually taken by John Mill, without any perception that it is a surrender of the case for parsimony.

Yet again, Smith makes admissions which go to prove that in the end the saving and the spending will come to the same thing as regards capital:—

> "The effects of misconduct are often the same as those of prodigality. Every injudicious and unsuccessful project in agriculture, mines, fisheries, trade, or manufactures, tends in the same manner to diminish the funds destined for the maintenance of productive labour."

But if the precept of parsimony be generally acted on, and the saved capital be yet used to employ productive labour, there must be unsuccess in many of the projects, and those which succeed will do so by ruining older ones. The excess of goods will not be bought. The extension of capital could not go on as proposed for a year unless the precept of parsimony were disregarded.

As his unmethodical exposition goes on, Smith apparently begins to perceive that a policy of general parsimony would not work so well as he had at first assumed, though his admission is made not by a modification of his general statement, but by fresh statements inconsistent with it. He had spoken slightingly of the idle people; but he had also prescribed a policy which, on the face of the argument, was to tend to multiply idle people. Were his advice generally taken, with the results he had predicted, saving would be carried on more strenuously than ever; and as the assumed motive to saving was the prospect of interest, the result in the terms of the case would be an ever-increasing class of people who lived on interest. Spending being discouraged, while interest continued to come in, families would be "endowed" in increasing numbers. Either these would, in accordance with average tendency, live idly on their interest, or they would develop a new passion for industry, and by production add further to the mountains of savings which, as it was, they were accumulating year by year. If they took the former course, we should have, according to the thesis, the phenomenon of a rapidly and continually increasing idle class in an always increasingly industrious community. If the latter, we should have the no less remarkable phenomenon of a community in which production was increasingly in excess of consumption, the majority always producing more and more, and, in the terms of the case, *selling their products*, while, on the same assumptions, the same majority *avoided buying the increased products*.

If, on the other hand, we took only the case of the working-classes, ignoring the confusion of the thesis, the same contradiction would arise. Smith's argument had implied, as we have seen, a constant increase of these classes. But his doctrine of parsimony in that case must certainly apply to them, since it asserted the necessity of saving on the part of the majority, if the prosperity of the country were to he maintained. The majority of the workers, then, must save. Now, as we have said, saving, according to Smith, was to mean a refraining from the consumption of part of the produce. When upper-class people saved, this abstinence meant that what they did not cause to be consumed unproductively would be consumed productively by the workers. But now the workers were not wholly to consume *even that which was "saved" for them to consume, such abstinence being their only way of performing the necessary and profitable act of saving*. At this stage of the exposition, if not earlier, the reader will perhaps be disposed to abandon the thread of the argument. That Smith consciously carried it thus far seems improbable. If it could be carried farther, the conception arrived at would be something like this:—That a wise proletariat would always abstain as far as possible from consuming what it produced, because the more unconsumed products there were, the better it would be for trade.

The reasonable presumption is, of course, that Smith never clearly saw what his proposition led to, any more than the truth which ought to be substituted for it. In economics as in philosophy he tended to evade fundamental issues, making optimistic assumptions where gaps had to be filled. But his cautious common-sense was always supplying him with some saving lights; and he does actually go on, in his chapter "Of the Accumulation of Capital," to contradict his doctrine as to the ruinousness of spending, and the dependence of prosperity on parsimony. Such contradictions abound in his book. He contradicts himself on rent, on interest, and on money. Thus in this very chapter we have the statement that "the quantity of money … must, in every country, naturally increase as the value of the annual product increases;" although he had alleged only in the chapter before that the circulating gold and silver of Scotland had suffered a "great diminution" during a period in which the "annual produce of its land and labour" had "evidently been augmented." So now, after asserting that the spendthrift, as such, tends to ruin his country as well as himself, the economist not only concedes that "great nations" are never impoverished by private "prodigality," but intimates that "some modes of expense, however, seem to contribute more to the growth of public opulence than others." Opulence is here understood as something different from capital, for the statement is that only parsimony adds to capital, while the complete spending of revenue neither increases nor diminishes capital, though it promotes "public opulence." The preferable form of expenditure, we now learn, is that which produces good houses, furniture, and works of art; and of this expenditure we are told, further, that it "*gives maintenance* to a greater number of people than that which is employed in the most profuse hospitality." Expenditure, then, may give maintenance to productive labour. The whole previous drift of the chapter had been to the effect that the expenditure of mere revenue counted for nothing in promoting industry, and that only the increase of capital by parsimony was of service; and now it appears that what the frugal man does by his annual saving, other men do by their annual outlay. There is thus no final security even for the doctrine that the man who spends his capital is "diminishing the funds destined for the employment of productive labour," since his very expenditure may confessedly give rise to such employment, and those to whom his money passes may do the same without limit.

So deeply rooted in Smith's mind, however, was the faith in parsimony, that while admitting that certain kinds of expenditure tended to "public opulence," he goes on to point out that, after all, "the expense which is laid out in durable commodities is favourable not only to accumulation, but to frugality." That is to say, when once a man has laid out a good deal of money on durable things, he may stop short and begin to "save" without seeming to lack money; whereas those who have spent mainly on sport and hospitality rarely have the "courage to reform, till ruin and bankruptcy oblige them." Having spent enough on building and furniture and books and pictures, then, the model man saves his money to put it in the bank. To what end? His durable possessions, we were told, added to public opulence, because the more good houses and furniture are made, the cheaper and more accessible these become. But now he has ceased to call for the production of these things; and yet now it is that the main gain is supposed to accrue. His money is banked, and is lent out to producers. In the terms of the case, these are not the producers of furniture, and books, and pictures, for he [i.e. the whole class of frugal men] having ceased to buy these articles, there is so far less and not more demand for them, and therefore there is no temptation to the producers to borrow money for the extension of their business. The producers who borrow must be others. Who are they? Hypothetically, the producers of articles for which there is an increasing demand. And what are these? All over the field of consumption, in the terms of the hypothesis, there is frugality, each man spending as little as may be. The only increase in production, then, will be that positively enforced by the gradual increase of population—every year a little more corn, a few more houses, more clothes, more furniture; but no more than can be helped. Thus, on Smith's own prescription, the increase of production, if there were to be no waste, would be in n few branches of production only, and would be strictly limited by the normal advance in population; whereas his prescription of parsimony was unqualified and unlimited, and implied on the face of it that there were no bounds to the possibility of employing saved money in profitable production. He had laid down a general proposition with no practical regard to its working out in detail: he had given society a quack's nostrum, with no other excuse than the good intentions which equally underlay so much of the economic and political quackery he exposed.

Chapter III—How the Fallacy Arose—Turgot and Smith.

The final refutation of any error, most men agree, is the showing not merely that it is an error but how it came to be made; and in the case of Smith's doctrine of parsimony this is not difficult. He lived in an industrial society, with democratic tendencies, just at the time when the habit of investment was admitted to have formed a new and important social stratum. His own income, after his retirement to Kirkcaldy, came from investments; and it is natural that the investor should wish to make out that in promoting his own interests he is promoting those of the community. And not only was he the first to grapple comprehensively with the obscure and complicated economics of industry, but he had the current doctrine of parsimony recommended to him by those very Physiocrats who gave him his best scientific inspiration, and whose fundamental positivism bulks so much more largely in his book than his refutation of their formal fallacies. While the Physiocrats brushed aside the bullion delusion, and went straight enough to primary truth in insisting on the preeminent importance of the exploitation of the soil, they seem to have tacitly or expressly accepted the immemorial principle of individual money-saving, without making any thorough inquiry as to what it was that, in industrial society, was really saved by the owners of investments. Quesnay, indeed,[1] has a curt *caveat* against "*des épargnes stériles*;"[2] but in this he merely condemns the locking-up of coin; and on the other hand[3] he insists that rise in prices is increase of national wealth. And the lucid and sagacious Turgot, ably formulating the conclusions of his school, distinctly identifies individual saving with the national accumulation of a mass of riches. In the very last section of his *Réflexions sur la Formation et la Distribution des Richesses* he admits that, "en effet, presque toutes les épargnes ne se font qu'en argent,"[4] which is more explicit than the language either of Smith or of the later Smithians; but the problem thus acknowledged is simply dismissed with the statement that while "l'accroissement

[1] *Maxime* 21, *Physiocratie*, p. 17.
[2] "Barren savings."
[3] Max. 13.
[4] "In fact, nearly all savings are made only in money."

annuel des capitaux se fait en argent,"[1] "tous les entrepreneurs n'en font d'autre usage que de le convertir sur le champ dans différentes natures d'effets sur lesquels roule leur entreprise; ainsi, cette argent rentre dans la circulation, et la plus grand partie des capitaux n'existent qu'en effets de différentes natures, comme nous l'avons déjà expliqué plus haut."[2] Here, in the final sentence of the treatise, the doctrine of the previous part is suddenly and radically transformed; and whereas we had been taught (§ 49) to think of a "réserve des produits annuels, accumulés pour former des capitaux"[3] (which again was modified (§ GO) into " valeurs mobiliaires accumulés,"[4] but re-modified (§ 61) into "richesses mobiliaires accumulées"[5], we are now to understand that the process of saving is not really one of accumulation of products or riches at all, but the conversion of money into goods or plant by producers—i.e., saving is fresh production. The matter being thus dropped, the practical teaching of Turgot's treatise remains that of his 80th section, which is to the effect that "l'esprit d'économie dans une nation augmente sans cesse la somme des capitaux; le luxe tend sans cesse a les détruire"[6]—precisely the position taken up immediately afterwards by Smith.

Thus led by his Physiocrat predecessors—whose faith he held on the points of free trade and the fallacy of the bullion principle—to endorse the popular faith in parsimony, Smith could not conceivably have taken a more advanced view. The problem for his day was not that which we to-day term the industrial: the futility of saving as a basis of national prosperity could not be apparent in a society which had not yet tried free trade; and the very confidence in liberty which inspired the protest against old restrictions excluded the tendency to speculate on the difficulties that might arise when trade was free. To

[1] "The annual increase of capitals is made in money."

[2] "All traders make no other use of it than to convert it immediately into effects of different kinds, with which they carry on their business; thus this money re-enters circulation; and the greater part of capitals only exist as effects of different kinds, as we have already explained above."

[3] "Reserve of annual products accumulated to form capitals."

[4] "Accumulated movable values"

[5] "Accumulated movable riches."

[6] "The spirit of economy in a nation augments unceasingly the sum of capitals; luxury tends unceasingly to destroy them."

question the principle of parsimony and investment as a permanent provision for national growth would have been not merely to propose reform, but to challenge the whole social system. As it was, Smith had the merit of analysing to some extent the facts of the case. It was something to have gone the length of the proposition that "that which is saved is consumed" and that what money saving partly does is to determine how food should be consumed—whether employment should be given to footmen or to workmen. It was much better to have seen that, after all, "public opulence" is increased by an expenditure which, instead of simply multiplying a proletariat labouring for its elementary wants, secures durable and valuable products, and so tends to raise the general standards of culture and comfort. It would seem, after this, no great matter to have recognised that a policy of "public opulence" stood at least as well justified as one which amassed "capital." But the fact remains that Smith left his teaching divided against itself, condemning expenditure while admitting that it might promote public opulence, and urging non-consumption as tending to encourage production. What is finally to be said for him is that every publicist in the century had similarly failed to reach consistency in the face of the imbroglio of modern industry. Montesquieu alternately advocated luxury and frugality, freedom of trade and restriction;[1] Voltaire now insisted that the outlay of the rich must always maintain the poor, and again desired the equalisation of fortunes:[2] and even Hume argues for protection as well as for free trade.[3]

[1] *Esprit des Lois*, vii. 1-7; xx. 22. Cp. Blanqui, *Histoire de l'Economie Politique*, ch. 36.

[2] *L'Homme aux Quarante Ecus; Discours a Académie; Défense du Mondain*.

[3] Essays on Balance of Trade and Jealousy of Trade.

Chapter IV—The First Corrections—Lauderdale and his Critics—Malthus, Chalmers, Sismondi—The Optimism of M'Culloch.

If Smith was excusable, however, for failure to see round the developing industrial problem before the French Revolution, the same can hardly be said for the economists who, coming one or two generations after him, failed not only to develop his argument but to profit by the criticism directly brought to bear upon it. In 1804 appeared the Earl of Lauderdale's *Inquiry into the Nature and Origin of Public Wealth,* which was in large part a criticism of Smith's doctrine of parsimony, but which also attacked his dogma of an invariable measure of value and his discrimination between productive and unproductive labour. On Lauderdale's own testimony[1] *1 his arguments, especially as to parsimony, were much assailed in his own country, but were well received in France, Germany, Italy, and America; and in 1819 he is found claiming that even at home his propositions "have gradually gained ground to such a degree that, in most recent publications, they are assumed as undisputed and uncontrovertible." To the reader of to-day this is puzzling; for while certainly Smith's confusions as to value were soon recognised, and his (Physiocratic) division between productive and unproductive work soon modified, it does not appear from the ordinary run of economic literature that his doctrine of parsimony was in any degree departed from by his more influential successors. Mill indeed asserts later[2] that "there is not an opinion more general among mankind than this, that the unproductive expenditure of the rich is necessary to the employment of the poor;" and he points to Sismondi, Malthus, and Chalmers, who had all argued that capital could be advantageously amassed only up to a certain point. But on the other hand, J. B. Say, James Mill, Ricardo, McCulloch, and Senior had all sided with Smith; and these were the writers who substantially formed the orthodox English economics of the century, Malthus and Chalmers having little influence apart from the population question. Doubtless Lauderdale heard chiefly the talk of those who agreed with him; and he would tend to have a good deal of not very valuable support for a

[1] Second Ed. 1819. Introd.
[2] *Principles of Political Economy*, B. I., ch. v, sec. 3.

reason which probably told heavily against him in many quarters. This was his arguing against the proposed rapid reduction of the National Debt on the score that the resulting sudden application of millions of money to purposes of capital, and the withdrawal of so much revenue from ordinary consumption, would utterly disorganise industry. Nothing could be more certain; but Lauderdale, unhappily, never goes beyond the demonstration of the danger, and has the air of being well pleased to see the National Debt subsist in full for ever. Such a point of view might be attractive to the idle classes, but could never be to the majority; and Lauderdale's disappearance from notice is in all probability mainly due to his having thus ostensibly countered one of the most natural instincts of a democratic and commercial community.

Nothing, however, could be more just than his whole criticism of Smith. He accepts Smith's view of capital, and assumes with him that the process of saving secures the application to productive purposes, in the shape largely of plant, of a quantity of food and energy which would otherwise be turned to consumption relatively unproductive. He then adroitly turns against the advocates of parsimony that very argument of analogy from individual practice on which they relied so much, only making the analogy genuine instead of spurious. An isolated individual catering for his own necessities, he points out,[1] would only waste his wealth and his energy if he turned to the form of capital more of his wealth than was needed to perform or supplant his necessary labour; and what was true for the isolated individual must be true for the total community. Lauderdale further lays his finger on the point which Smith had perceived at a late stage of his exposition, and which, as we have seen, reduced his teaching to final contradiction:

> "Parsimony does not augment opulence; it only changes the direction in which the labour of a community is exerted; and unless we adopt an opinion which, in economical reasoning, seems long to have been unconsciously cherished— that capital exclusively forms wealth—we cannot conceal from ourselves that if a society,

[1] Second Ed., p. 208.

by parsimony, increases its opulence in capital, it inevitably must diminish its wealth in articles produced for consumption."[1]

Nor did Lauderdale for a moment countenance the upside-down doctrine that it is the idle rich who "maintain" labour: he declared in terms of the Smithian sociology (p. 347) that "the real source of increasing wealth is alone to be found amongst farmers, manufacturers, merchants, whose habits open their eyes to farther means of supplanting the labour they perform or superintend;"[2] and he devotes an unanswerable chapter to refuting the assumption that the total of individual "riches"[3] (= nominal command of wealth) served as a measure of the national wealth. But, whether it was that men would not believe that an earl could be a good economist, or that his opposition to the sinking-fund caused him to be ranked with those who called the National Debt a national blessing, Lauderdale's book passed out of notice in his own country, though his formula of the right contingencies of value[4] was quoted with approved by Ricardo.[5] J. B. Say dismissed him in a single flimsy footnote,[6] summing up his thesis in the unintelligible proposition that "l'accumulation retire de la circulation des valeurs qui seraient favorables à l'industrie"[7] and refuting this by saying that "ni le capital productif, ni ses accroisse-

[1] Page 210.

[2] In an earlier passage (p. L94) he puts it that " labour … is the great means of increasing wealth." He also points (p. 344) to "inequality of fortune" as the "principal impediment to the increase of public wealth," and strongly condemns (p. 364) all interference with trade.

[3] This distinction between "riches" and "wealth" is of course arbitrary, and is not followed in this essay save in expounding Lauderdale.

[4] Worked out later, independently, in terms of the desires of buyer and seller, by Professor Perry, as cited by Professor Price (*Practical Political Economy*, 2nd ed., p. 46).

[5] *Principles,* ch. 30. It is probably needless to point out here the formal inefficiency of Ricardo's contention, as against the supply and demand formula of value, that the prices of freely produced commodities "will ultimately depend, not on the state of demand or supply, but on the increased or diminished cost of their production." Obviously the antithesis is only verbal, and the proper statement is that cost of production ultimately regulates supply, price being still a function of supply and demand, just as where supply is determined by hazard or by a monopolist's choice.

[6] Traite d'Econoniic Politique, 4ième édit., i. 107.

[7] "Accumulation withdraws from circulation values which would be favourable to industry."

ments, ne sont retirés de la circulation."[1] Evidently he had not read the book; but his bogus refutation would settle the matter for France. Blanqui in his bibliography speaks of the *Inquiry* and the Earl's *Considerations on the State of the Currency* (1813) as works "encore estime aujourd'hui, surtout le dernier, même après les écrits de Ricardo;"[2] but McCulloch, who drew on his learning, does not criticise the *Inquiry* either in his *Principles* or in his Literature, merely insinuating that Brougham disposed of it in the *Edinburgh Review*; and Lauderdale is not so much as named in Cossa's *Guide to the Study of Political Economy*, though Roscher and Böhm-Bawerk cite him with a frequency which testifies to some study. Professor Ingram, again,[3] alludes to him with approbation, but with his usual failure to discern the economic issue.

Brougham's criticism [4] in all probability was a means of discrediting Lauderdale among English economists and Liberals generally,[5] though he not only left the Earl's central position untouched but stole some of his thunder. The critic actually adopted without acknowledgment Lauderdale's effective attack on Smith's discrimination of "productive" and "unproductive" labour, just as he adopted without acknowledgment Say's rebuttal[6] of Smith's assumption (on the lines of the Physiocrats) that only in agriculture did Nature assist men's efforts. These refutations were likely to win acceptance for the article as a whole, put forward as they were in the reviewer's own person; and for many readers, no doubt, Lauderdale's book was disposed of by a critique whose strongest points were really derived from it. The

[1] "Neither productive capital nor its augmentations are withdrawn from circulation."

[2] "Still esteemed to-day, especially the latter, even after the writings of Ricardo."

[3] *History of Political Economy*, p. 111.

[4] *Edinburgh Review*, July, 1804.

[5] I strongly suspect that Lauderdale's grossly adulatory dedication of his book to the Prince of Wales did something to arouse distrust.

[6] *Traité d'Economie Politique, 4ieme* édit. i. 9, 13. The *Traité* was published in 1803. Cairnes (*Essays in Political Economy*, "Bastiat," p. 328) seems to credit Ricardo with originating the argument. John Mill (B. I., ch. i. , sec. 2, note) thought it originated with his father. But as J. B. Say and McCulloch have shown (*Traité*, i. 13; *Principles*, 2nd. ed., pp. 56, 65), it was put forward by Count di Verri last century, and later by Destutt de Tracy. And Lauderdale quotes (p. 109) a passage implying it from an anonymous writer (really Asgill) in 1696.

book as a whole is depreciated with every air of omniscient superiority that an early reviewer could assume. And yet the criticism expressly concedes the main argument of Lauderdale against Smith:—

> "If by accumulation our author means only too great accumulation of stock (that is, a greater aggregation of capital by parsimony, than can be employed), we have only to deny the novelty or importance, not certainly to dispute the truth of the doctrine."[1]

But, as we have seen, the whole drift of Smith's argument had denied that there could be over-accumulation of capital; and that was the prevailing view among his followers; so that Brougham was depreciating Lauderdale on a ground which his own party could not honestly take. For the rest, when he goes on to argue that the undue multiplication of "capital" by production would be just as bad as its multiplication by saving, because in the former case also it could not be "profitably employed," he falls into complete confusion. Lauderdale was actually arguing that there were necessary limits to the accumulation of capital—that is, stock devoted to fresh production—and contending that what was wanted was not more capital but more consumption. In fine, Brougham's criticism, marked as it was by his usual hasty cleverness, as well as his usual egoism, was merely that of a lawyer. It was thus at its best on questions of plain analogy, where it was not original, and became insignificant and evasive where the problem became vital and practical. But that is just the sort of criticism that commonly serves to put down an innovating argument among partisans glad to have it dismissed.

The argument of Malthus, again, would seem to have missed its mark for a similar reason. He too gives a forcible answer to Smith's prescription of parsimony. The rationale of the matter he summarises thus:—

> "National saving, considered as the means of increased production, is confined within much narrower limits than individual saving. While some individuals continue to spend, other individuals may continue to save to a very great extent; but the national saving, or the balance of produce above consumption, in reference to

[1] *Review* as cited, p. 373.

> the whole mass of producers and consumers, must necessarily be limited by the amount which can be advantageously employed in supplying the demand for produce; and to create this demand there must be an adequate consumption either among the producers themselves, or other classes of consumers."[1]

And he passes an irresistible criticism on the inconsistency of Smith in asserting, despite his dogma of parsimony, that "the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary." Smith's course, he points out, "is to found a doctrine upon the unlimited desire of mankind to consume; then to suppose this desire limited in order to save capital, and thus completely alter the premises; and yet still to maintain that the doctrine is true." But while this criticism was never met, Malthus, like Lauderdale, passed out of notice as an economist, presumably because he too lent himself to the cause of the idle classes. His opposition to the repeal of the corn laws, bottomed though it avowedly was on his established doctrine of population, would alone have gone far to discredit him in the eyes of the trading classes; but he had further the unhappy inspiration (1) to put his case in the proposition that the most incontestably "unproductive" classes actually promoted public wealth inasmuch as they were consumers; (2) to argue for consumption by idlers rather than by workers; and (3) to insist positively that the National Debt was a condition of public wellbeing.[2] Malthus saw further into the social problem than the Free Traders; but unfortunately, in his economics, he read it

[1] *Principles of Political Economy,* p. 467: cp. 486.

[2] It is easy to see that it was not want of good feeling that made Malthus formulate his views so unluckily. He anxiously but vainly modified his more unfortunate statements. After ruinously arguing (p. 472) that a greatly increased consumption among the workers must greatly increase cost of production, and so diminish agriculture and commerce, and that therefore the idlers must do the extra consumption, he shifts his position and puts it (p. 489) that even if the workers might have the power to consume sufficiently, experience shows they have "not the will; and it is to supply this will that a body of unproductive consumers is necessary." And he goes yet further. In the later redaction of his *Essay* (7th ed., p. 473) he even makes bold to declare that "it is the diffusion of luxury among the mass of the people, and not an excess of it in a few, that seems to me most advantageous both with regard to national wealth and national happiness." And it is plainly the danger of distress that makes him hesitate {Pinciples, p. 485) even about the slow reduction of the Debt.

backwards. The question for him should have been: How could the sum of production be maintained while minimising the idle class? He, however, read it simply thus: What would be the effect on production of annihilating the revenue of the idle class, or of causing them to invest their (nominal) capital otherwise than in State debt? Giving the true answer to this, he went no further, and so figured as an advocate of national indebtedness, putting only a few lukewarm objections against his account of the benefits. Finally, as McCulloch was careful to point out, he was not optimistic about machinery; and only in our own day has economic optimism on that and other matters been effectively discredited.

And Chalmers, in his turn, frustrated himself in a similar fashion. Following Malthus in the main in general economics as he did on the population question, he worked out an independent refutation of the principle of parsimony; and he did not fall into the snare of justifying the National Debt. On the contrary, he advanced a telling economic argument for the payment of war debts out of revenue by extra taxation. But he must needs, on the other hand, not only champion primogeniture for the sake of the "moral and humanising effect" of a resident gentry, but propose[1] that the State should make a "liberal provision in all the branches of the public service" whereby all younger sons should have places of a thousand a year! "We should still have the State to support the younger branches; yet not by the violation of its integrity, but by a more severe taxation than our politicians of the present day [1832] have the courage to impose." Somehow the politicians of to-day are still more degenerate; and the reverend gentleman's heroic politics have sunk his economics.

One and all, the English opponents of the fallacy of parsimony had contrived to associate their argument with the doctrine that it was a good thing to multiply rich idlers; Lauderdale seemingly doing it by mere reticence; Malthus and Chalmers doing it more or less of malice prepense. On the Continent, again, Sismondi's opposition to machinery seems to have had a similar effect in discrediting his opposition to the theory of parsimony. In view of the utter neglect of Sismondi's wisest and weightiest writing, it would indeed be unwarrantable to assume that he would have been much more listened to had

[1] *On Political Economy*, p. 1372.

his practical prescription been different. Perhaps his impeachment of the life of blind competition was in those days too far wide of the average moral sense to make converts under any circumstances. Long before either Carlyle or Ruskin, and with more sanity and temperance than cither, he insisted in the name of political economy itself that man lived in society to secure his happiness and not to produce cotton and buttons at the lowest possible price.[1] Even in London, he pointed out,[2] the people had made for themselves public parks, and—

> "les habitants ont senti que l'air pur, la promenade, la jouissance des yeux, sont aussi des produits, et que la richesse qui donne de la saute" et du plaisir n'est pas infructueuse."[3]

Misconceived and misrepresented by his friend Say, he thus[4] summed up his attitude towards industrialism:—

> "Seulement j'ai prétendu que la multiplication des produits était un bien quand elle était demandée, payée, consommée; qu'elle était un mal au contraire quand n'étant point demandé, tout l'espoir du producteur était d'enlever un consommateur aux produits d'une industrie rivale." … "La conséquence de nos institutions, de notre législation, ayant été de dépouiller la classe travaillante de toute propriété et de toute garantie, l'avait en même temps poussée à un travail désordonné, qui n'était point en rapport avec la demande ou avec les moyens d'acheter, et qui aggravait en conséquence sa misère."[5]

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[1] Nouveaux Principes d'Economie Politique, 2e éit., 1827, ii. 141.

[2] Ib., p. 140.

[3] "The inhabitants have felt that pure air, free walking, the pleasure of the eyes, are also products, and that the riches which give health and pleasure are not unfruitful."

[4] Ib., p. 462.

[5] "I have simply contended that the multiplication of products was a good thing when they were demanded, paid for, consumed; that, on the other hand, it was an evil when, not being demanded, the whole hope of the producer was to withdraw a consumer from the products of a rival industry." … "The upshot of our institutions, of our legislation, having been to despoil the working-class of all property and of all security, they were at the same time driven to reckless labour, which was not correlated with demand or the means of purchase, and which in consequence aggravated their misery."

The general truth of this was later admitted by Mill, in his avowal that "hitherto it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being."[1] But even Mill would not see the force of Sismondi's economic argument against the optimistic positions; and inasmuch as that went with an attitude of unscientific hostility to machinery, as well as with a perfectly scientific propaganda in favour of forms of consumption which machinery could not meet, Sismondi's lack of influence is partly intelligible, even apart from the general backwardness of sociology and the association of his doctrine with some of those of Conservatism. Enough that whereas the natural optimism of the Free Trade movement was alone sufficiently hostile to a scientific recognition of the possibilities of disaster under a free regimen; and whereas even the doctrine of Malthus on population tended to be willingly ignored by the average Free Trader as soon as possible, despite its acceptance by his economists, the English writers who challenged optimism had further given fatal grounds for the belief that they were the friends of the old order and not of the new. Commercial opinion went with the optimists who were visibly democrats as well as Free Traders, and who endorsed the healthy moral instinct which formally, however illogically, condemned idle living.

There was, indeed, an optimism in those days which had stomach for everything, bar protection; which was content alike with parsimony, luxury, pressure of population, and primogeniture. The robust McCulloch is the typical optimist of Laissez-faire. Defying Smith, he was not a whit afraid of spendthrifts: he endorsed Dudley North's decision that sumptuary laws kept a country poor by checking ambition; and he thought luxury a very good thing, as promoting production.[2] He also held that increase of labour depended on increase of saved capital;[3] but then capital was "formed out of profit."[4] He disposed of the fear of insufficient saving by a Leibnitzian pre-ordained harmony:—"It has been wisely ordered that the principle which prompts to save and amass should be as powerful as it is advanta-

[1] B. IV., ch. iv., sec. 2.
[2] *Principles*, 2nd ed., pp. 515-523.
[3] Pages 515-534.
[4] Page 116.

geous."[1] With Smith he decided that there would always be more saving than spending;[2] and, again with Smith, he also maintained on the contrary[3] that nobody ever heard of a want of will to spend. Over-population he showed, with Bishop Sumner,[4] to be the basis of civilisation, even if it did reduce wages;[5] primogeniture promoted energy and benevolence;[6] and even taxation, up to a certain point,[7] stimulated thrift and industry. Gluts, though certainly the results of miscalculation,[8] were at the same time really caused by insufficient production[9] of the things which there was not a glut; if there was too much of one thing, it only needed, as M. Say had shown,[10] more of other things to buy it up. *Sic itur ad astra*. Taken all round, McCulloch's optimism is a memorable phenomenon. But it was to be superseded by an optimism a little more sympathetic, a little more discriminating, and, at the same time, a little more preposterous.

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[1] Page 112.
[2] Page 535.
[3] Page 185.
[4] Pages 225-230.
[5] Page 484.
[6] Pages 259-260.
[7] Pages 113-116.
[8] Page 203.
[9] Page 185.
[10] Page 201.

Chapter V—The Argument of J. S. Mill

I have said that the wish was father to the thought when Adam Smith urged that the man who saved money for investment could not fail to benefit his fellows. No other explanation can suffice for the strange energy of error which inspired John Mill's "Fundamental Propositions Respecting Capital."[1] In so far as that chapter is an explicit statement of the wage fund theory, he of course abandoned it later; but no excision of a subsidiary doctrine can save from decomposition the deplorable tissue of fallacy which he thought fit to dub fundamental. The great defect of Mill's great quality of open-mindedness was always laxity of hold on the parts of a thesis; a laxity which made possible to him strokes of self-contradiction not to be paralleled outside of the works of Mr. Ruskin. His father, on whose strength of conviction some think the son's catholicity an improvement, was incapable of these astonishing self-stultifications—of saying in one section[2] that a socialistic adjustment of work to individual faculty is quite possible, and in the next that the supposition is "almost too chimerical to be reasoned against;" of saying in the proem that the laws of distribution, unlike those of production, are "partly of human institution," and in the beginning of the second book that distribution is "a matter of human institution solely." These and other vacillations have been exclaimed against by critics friendly enough to Mill; but nobody, I think, has yet done full justice to the indescribable see-saw of the "Fundamental Propositions." Nobody, perhaps, ever will; there is nothing in non-theological literature to compare with it.

The applications of the idea of capital are prepared for by the previous chapter on capital itself. In the first section of that we learn that "whatever things … are destined to supply productive labour with … requisites, are capital." Then we have the statement that a capitalist who has nothing but iron goods can, by a "mere change of the destination of those iron goods, cause labourers to be fed,"—the meaning really being that with a portion of the proceeds he can pay wages to extra workpeople. Here, too, we have the proposition that capital

[1] Principles, B. I., ch. v.
[2] B. II., ch. i., sec. 3.

exists as such by virtue of the owner's intention to use it as capital, an admission that a nation's capital may fluctuate greatly from day to day; which was already a surrender of the wage-fund theory. Then we have the explanation that "all funds from which the possessor derives an income … are to him equivalent to capital;" but what is capital to him is not capital to the nation. And yet, after all, we have this illustration. A capitalist, A., lends on mortgage £10,000 ["property of the value of £10,000," is the desperate phrase by which the argument is sought to be bolstered up] to C, a spendthrift landlord, who lays it out on "equipages and entertainments,"—the good old Smithian illustration. Then, when it is spent, A. is "as rich as before … he has a lien on the land, which he could still sell for" his £10,000; but C. is £10,000 poorer, "and nobody is richer." This, though, the nominal command of that £10,000, which was all that A. parted with and all that C. lost, was, in the terms of the case, transferred to other people! Of course nothing even of the "equipages" is left: all "unproductive" spending, doubtless, is "unproductive," but for these arguments you are farther to assume that the spending man is an organism who makes a clean sweep of all he buys. In the "fundamental" chapter (§ 5) we definitely learn that not only his equipage but his furniture is invariably "destroyed without return."

In the first section of that chapter we have the implicit proposition that when legislators by their laws contrive that any portion of the capital of the country be employed in a new industry, that capital "must have been withdrawn or withheld from some other" industry. This is one contradiction of the previous dictum that capital as such comes into existence when a man decides to use as capital what he might have spent as revenue. But the contradiction is promptly recontradicted in the second section, which assures us that not only can capital increase in productive power, but "increased returns" hold out an "additional temptation to the conversion of funds from an unproductive destination to a productive "—which is another denial of the wage-fund theory. Thus is economics made at once a terror to legislator who create new industries, and a comfort to civilians who want them. And yet the legislator in turn is informed that he may "lay on taxes and employ the amount productively"! The reeling intelligence is, however, supported at this point by the quick addendum that the legislator may "do what is nearly equivalent"—he may tax income or expenditure and pay off some of the public debt; in which case the amount paid off will be capital, necessarily to be invested—to produce the goods the investor could no longer afford to buy.

The first Fundamental Proposition had been "that industry is limited by capital." In the second section it is explained that "we are not, however, to infer that it always reaches that limit. Capital may be temporarily unemployed, as in the case of unsold goods, or funds that have not yet found an investment. That is to say, in the case of the goods, lack of demand for the time limits industry. But this contradiction must of necessity be contradicted, so in the third section we attain the conclusion that the "limit of wealth" [which please to read as = industry] "is never deficiency of consumers, but of producers and productive power. Every addition to capital" [including unsold goods or money that cannot find an investment] "gives to labour either additional employment or additional remuneration." And this how? The goods remained unsold; yes; "but this is seeing only one half of the matter." "The whole of what was previously expended in luxuries, by capitalists and landlords, is distributed among the existing labourers in the form of additional wages"—that is to say, in employing labourers to make unsaleable goods, which is so much more beneficent a process than encouraging the continued employment of those who produce the "luxuries," now also unsaleable. And if you are not impressed, you must try and assume, as does Mill here, that luxuries are made by nobody.

After this the fun grows fast and furious. The cause at stake being that of saving, it becomes a fundamental proposition that only by saving can you have capital. There arises the random hypothesis that without consuming less, nay, even while consuming more, you may produce still more; but "nevertheless there is here an increase of saving in the scientific sense. Though there is more consumed, there is also more spared. There is a greater excess of production over consumption … We must not allow ourselves to be so much the slaves of words as to be unable to use the word saving in this sense." In fact, if you will, there had been no great difference of doctrine between Smith and Lauderdale.

Two fundamentals being thus secured, we reach a third—that capital, though saved, is nevertheless consumed—the formula of Smith. And whereas that might be too difficult a conception to "the vulgar," whose eye follows all savings "into an imaginary strong-box," we have a further interesting demonstration that what is consumed is saved. As thus. The spending man, that suicidal materialist, effects "a consumption, that is to say, a destruction, of wines, equipages, and furniture." But while the destroyer has been implacably conducting his daily bonfire, "the saving person, during the whole time that the destruction was going on, has had labourers at work repairing it; who are ultimately found to have replaced, with an increase, the equivalent of what has been consumed." The beneficent task of this estimable person is thus the production of fresh wines, equipages, and furniture, for the (so to speak) annihilist spendthrift to destroy. But as it appears on reflection that from this point of view the moral merits of the spender and the saver are not sufficiently differentiated, the economist, candidly admitting that the pabulum of the spendthrift "could not in any case have been applied to the support of labour" (which contemns wines, shuns equipages, and distrusts furniture), proceeds to explain that for a change we may produce something else. Since the wine, furniture, and equipages "continue to be produced as long as there are consumers for them, and are produced in increased quantity to meet an increased demand," why, it is the man who demands things who is really responsible for their being produced. On which comparatively commonplace proposition (which, as we shall see, is in flat contradiction to the fourth Fundamental Proposition) there follow some remarks to the effect that structures not intended for productive purposes, such as Westminster Abbey, sometimes last very long, while it does not pay to make durable factories; a truth set forth not so much to encourage saving, which rather runs to factories, as to show more fully that most things that are saved are consumed.

It is after an interval of agreement, as to taxation, with the original but questionable Chalmers, that we reach Mill's fourth and last Fundamental Proposition Concerning Capital, "which is, perhaps, oftener overlooked or misconceived than any of the foregoing." This proposition is that "Demand for commodities is not demand for labour." That is to say, "The demand for commodities determines in what particular branch of production the labour and capital shall be employed; it determines the direction of the labour; but not the more or less of the labour itself, or of the maintenance or payment of the labour. These depend on the amount of the capital or other funds directly devoted to the sustenance and remuneration of labour." Now, we had previously agreed that there was such a thing as "additional temptation to the conversion of funds from an unproductive destination to a productive"; and it might be thought that a demand for more goods would constitute such a temptation; but we have since changed all that. The task now is to show that mere fresh demand can never extend industry, since the human faculty of demand is a strictly limited quantity, though it can perhaps be expanded when saved capital creates supply. To be sure, there is an admission at the other end of the book[1] that "restoration of confidence" may revive trade from collapse; but we are a long way from that chapter at present; and the creed of the moment is investment, not expenditure. If, then, you elect to demand one thing, you must go without another; and if, peradventure, you used to save money and are now minded to spend it, you still do not call for fresh labour, but only turn labour from other things to do what you want. It would follow on this that when, instead of spending your money on products, you lend it to a manufacturer, there happens just the same thing—you cause labour to be drawn from one branch to another. But this altogether too simple equation would give no special moral encouragement to saving, so it becomes necessary to substitute for it an extended process of reasoning, in which, haply, things may come to look different.

To begin with, then, let us suppose that there is a demand for velvet, but no capital to make it; then no velvet will be made. So much for that. The proposition is meaningless, but no matter. Let us suppose next that there is plenty of capital but no demand, then, again, no velvet will be made. But in this case manufacturers and labourers will either produce something that is in demand, "or if there be no other demand, they themselves have one, and can produce the things which they want for their own consumption"—velvet-makers and others having happily always this resource in dull times. "So that the employment afforded to labour does not depend on the purchasers, but on the capital." Q. E. D.!

At this stage it is thoughtfully admitted by Mill, that if a demand for a commodity suddenly ceases after it is produced, the capital

[1] B. III. ch. xiv., sec. 4.

employed is lost. But we are not to suppose that this is merely for lack of demand for the commodity. "The employment which [the capital] gave to labour is at an end, not because there is no longer a demand, but because there is no longer a capital." In other words, when you are shivering, with coals and sticks in your grate which you have no means of lighting, the trouble is not that you have no paper and matches, but that you have no fire. The student may here inconsiderately suggest that if demand set in anew it would create afresh that evanished capital—but—*revenons à nos moutons*. "This case does not test the principle. The proper test is to suppose that the change is gradual and foreseen"—in fact, if you will have it so, it is perhaps better not to stop your velvet-buying all at once, lest by stopping demand you destroy capital and dis-employ labour. But that is not the point: the point is saving.

A flood of light being thus already shed on the subject, we proceed to suppose the case of a consumer at the parting of the ways, as it were, hesitating whether to hire bricklayers to build, or "excavators to dig artificial lakes," or simply to buy velvet and lace, obeying the fatal bias of the typical spender to these articles. On one side beams the voluptuous velvet (we do not dally over the lace); on the other beckons the tawny bricklayer, the more sophisticated lake-excavator being on second thoughts kept out of sight, so as not to complicate the problem. Now, observe the difference. If the consumer casts the fatal die for velvet, "he does not employ labourers; but merely decides in what kind of work some other person shall employ them. The consumer does not with his own funds pay to the weavers and lace-makers their day's wages." Let there be no mistake about that. And now suppose after all that he had previously been in the "habit " of "hiring journeymen bricklayers," and see the fatal result! He calls for velvet, but where is the capital to make it? Alas! all old dreams of fresh savings notwithstanding, the capital can only come from those concerns which formerly provided food for the now forsaken bricklayers—such being the natural and inevitable course of commerce!" There was capital in existence to do one of two things—to make the velvet, or to produce necessaries for the journeymen bricklayers, but not to do both." Here, perhaps, the inquiring mind pauses to raise this problem: If the capital of the bricklayers' provision-dealers is thus inevitably transferred to the making of velvet, what is to become next of the new velvet-makers, to feed whom there is no capital left, though they are earning wages? And what if, after all, the bricklayers themselves, taking a leaf from the book of their whilom grocers and bakers, went to work in the velvet-factory? The fundamental exposition saith not—though to be sure we had heard that demand for commodities did transfer labour from one task to another.

Rather we turn to this other pleasing hypothesis. Suppose the slave of velvet "resolves to discontinue that expense, and to employ the same annual sum in hiring bricklayers." Now observe the beneficent change. The velvet-manufacturer "sets at liberty" a portion of his capital—he naturally would!—and whereas the reformed consumer is now employing bricklayers with one fund, the versatile manufacturer has a "second fund" free to employ more labour with. Your velvet-maker is thus ready for whatever may turn up. So "there is a new employment created for bricklayers, and a transfer of employment from velvet-makers to some other labourers, most probably those who produce the food and other things which the bricklayers consume." To the harmonious adoption of this view, there are necessary only three concessions. You have (1) merely to assume, for peace' sake that no capital had ever been employed in producing fund for the velvet-makers; (2) you are to blot the dismissed velvet-makers from the book of your remembrance; and (3) you are not to go back on old discussions and ask how the velvet-manufacturer contrives to "set free" the capital embodied in the velvet which he cannot sell. With these trifling adjustments, the argument for hiring bricklayers versus buying velvet is complete. As for the doctrine of saving and investment, that must for the present be left to shift for itself; because there is the drawback that the mere investor does not pay wages with his own hands: he only enables other people to pay them as the merest velvet-buyer might do.

That is to say, Mill's attempt to vindicate the principle of parsimony has ended in negating it. Smith counselled us to save money in order to invest, or produce goods for sale. Mill, carrying Smith's confusion further, ends by counselling us to spend directly in wages, on the score that only by such expenditure can we really "employ labour." The argument that "capital is the result of saving" comes to absolutely nothing, for the money saved to be expended is no more capital than any other money spent in ordinary course. It is spent without profit. The statement that saving enriches, and spending impoverishes, the individual along with the community, comes to nothing, for in the end it is sheer spending that is prescribed.

The upshot of this precious demonstration is worthy of the steps. Desiring to help the working-classes, you have hired them to make a house you do not want, and which you are not to sell. You are not to sell it, for the reason for which you were not to buy it. "A demand delayed until the work is completed … contributes nothing to the demand for labour; and that which is so expended is, in all its effects, so far as regards the employment of the labouring classes, a mere nullity." On that ground you did not try to buy a house ready-made, or even to order one; and would you then encourage anyone else to take the nugatory course which you avoided? No: there is your house; there are the fed and clothed bricklayers; and if you would continue your beneficent course you have only to set them building another useless house, or, perhaps, for a change, digging an artificial lake. That, too, must be made for no ulterior purpose. There was no outside demand for the house you have built; if there had been, the bricklayers would have been employed by a builder, without your personal intervention. But "when there is no demand for houses, no houses will be made," so that you yourself had to make demand for the house you built, after all that argumentation about the futility of demand. Only, you were to take the work of hiring the men, instead of letting a master-builder hire them for you. And it is to this that the argument for saving and investment comes in the hands of the economist who professes most elaborately to establish it; the saving and investment are finally to consist in sinking capital in personally employing men to build houses not destined for consumption. And the whole economic upshot, as has been remarked by Mr. R. S. Moffat, is to indicate a preference for bricks over velvet.[1]

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[1] *The Economy of Consumption: An Omitted Chapter in Political Economy*, 1878, p. 90. This able writer, who has produced one of the most original books in recent English economics, an effective criticism of the parsimony fallacy in general, and Mill's fallacies in particular, illustrates afresh the strange fatality which pursues the opponents of the doctrine of universal saving. Like Malthus and Chalmers, if not like Lauderdale, he undoes his work by ranking himself on the side of privilege. He can smile at Chalmers' plan for endowing younger sons; but he himself arrives (p. 376) at the doctrine that landlords are at once necessary and advantageous, "that rent

Nor is this all. I have commented elsewhere[1] on the fashion in which Mill here keeps out of sight in his "Fundamental Propositions" what he elsewhere recognises[2] as a fundamental truth in social affairs—the impossibility of providing genuine labour or even food for all, unless there is a restraint on the number born. He does, indeed, put it[3] that on his plan workers may always be employed while there is "food to feed them;" but he does not offer the least hint that the continuous employment of unskilled and slightly skilled labour would soon carry population to a point at which there would not be food to feed it. He puts forward his unhappy demonstration as if it were a real solution of the industrial problem, and only takes into account the population difficulty in another chapter, for the purpose of rebutting the demands of the Socialists who want State-provided employment for all. Individually-provided employment is represented as involving no such drawback. No doubt he tended to see things differently in his latter years, but there the old fallacy stands in his book, unretracted. Like Smith, he went on adding new views to old without reducing them to agreement; and there is scarcely a proposition in his argument on Saving that is not explicitly gainsaid by others, in the same chapter or later. Thus, after all his insistence on the destructiveness of the spendthrift, he adds a footnote admitting that there is a "compensation, more or less ample," in the fact that spendthrifts "do not usually succeed in consuming all they spend" (sic); and this note ends with a reference to "that part of the Fourth Book which treats of the limiting principle to the accumulation of capital"—a principle which he has just been expressly refusing to accept. The upshot is that the denial stands as part of the Fundamental Propositions, while the truth is recognised at the other end of the book; and even the glimpse of the rationale of spending does not prevent a repetition of the dogma of parsimony in the same note. The confusion is hopeless.

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is inseparable from the duties of proprietorship; that it is the price paid for the performance of these duties; and that a rent is thus a part of the natural cost of production." In the face of this perversity I can but speculate as to whether I in turn part company somewhere with scientific politics and universal ethics.

[1] *Modern Humanists*, p. 99.

[2] B. II., ch. xii., sec. 2.

[3] B. I., ch. v., sec. 3.

Chapter VI—The Doctrine since Mill.

After the foregoing it matters little that Mill goes on to supply half-a-dozen more self-stultifications on points of detail, admitting now that to manufacturers "a falling off in the demand is a real loss;" and that, after all, "an increased demand for a commodity does really … often cause a greater employment to be given to labour by the same capital." These fresh collapses make the infirmity of the writer a little more abundantly manifest: they cannot heighten the ineptitude of the general argument. And yet that tissue of childish sophistry constitutes to this day the orthodox economic teaching on the subject. Mill's unquestionable good faith, with the contagion of optimism which had bewitched him, sufficed to blind men to the abject absurdity of his reasoning. I cannot agree with the late Professor Jevons that the economics of Ricardo is a substantially unsound system, which, by the help of Mill and his followers, has overridden a substantially sound economics set forth by Malthus and Senior; but I am bound to declare that on this one question of saving fallacy has pushed aside science.[1] So far as economics has been studied among us, Mill has been the leading authority down to the other day; and the popular Fawcett is a recapitulation of Mill.

Mr. Leslie Stephen has remarked that "Hitherto it may be roughly said that the advantages gained [from the study of political economy] have consisted rather in clearing away old errors than in discovering new truths—so far as these processes can be separated."[2] The latter words are suggestive of an imperfect apprehension on the writer's part of the truth he seeks to expound; and the suspicion here set up is

[1] Jevons himself is on the wrong side. He laid down the doctrine of universal saving in the most absolute terms (*Primer of Political Economy*, pp. 45, 84-6) without once asking how all the savings could be profitably applied, though he put it forward (p. 133) as a reason why it was absurd for a nation to accumulate gold and silver that there is "a loss of interest upon their value." That is itself an old fallacy; but the doctrine might have set him reflecting upon the excessive accumulation of money-credits. In his *Theory of Political Economy*, however, he exhausted his powers over purely theoretic reforms without coming in sight of the practical fallacy of saving. In the *Primer* he appears to follow Cairnes.

[2] *History of English Thought in the Eighteenth Century*, ii., 285.

more than justified when, a little farther on, we have from him this deliverance:—

> "Beneath the fallacy of the balance of trade and the identification of money and wealth[1] lay another fallacy, apparently more transparent, and yet so obstinately persistent that its roots must clearly strike very deep in the minds of most observers. The fallacy is that which was made celebrated by Mandeville, and the complete confutation of which lies in the doctrine—so rarely understood that its complete apprehension is, perhaps, the best test of a sound economist—that demand for commodities is not demand for labour."[2]

Of this doctrine, recognised to be so elusive, Mr. Stephen makes no exposition; and we can only surmise that he adopted his conviction second-hand from his friend Fawcett, who had dutifully taken it from Mill, and who so far outwent his master that, like Cairnes, he declined to give up the wage-fund theory when Mill did, continuing to hold it in its crudest form, however,[3] while Cairnes reduced it to the "arithmetical truism presented as an economic law" which might equally have evoked the derision of Marx.

But an abler economist than Fawcett, the clear and careful Professor Sidgwick, takes the distressing course of avowing that Mill's doctrine of demand for commodities not being demand for labour "is, I believe, perfectly true when properly explained,"[4] when, in point of fact, the "proper explanation" in his own hands becomes either a truism or a quibble, as you may happen to regard it. He ends by "granting it to be substantially true that the consumers of luxuries do not 'demand labour' in Mill's sense, i.e., do not supply the real wages of the labourers who 'produce the luxuries' bought by that particular act of demand. And while on the one hand reducing the "truth" in Mill's laborious argument to this complexion, after stating that Mill's argument in support of his formula "appears to me to a great extent

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[1] Mr. .Stephen is not clear about the existence of this fallacy, even in the work quoted from (cp. pp. 287, 289); and in a later composition he almost denies that it ever existed (*Fortnightly Review*, May, 1880, p. 689).

[2] Ib., p. 297.

[3] *Manual of Political Economy*, B. II., ch. iv.

[4] *Principles of Political Economy*, B. I., ch. v. Note at end.

sound," he notes: "I think, however, that it is all in form unsatisfactory;" and "I think that a part of the argument—that which compares the effects of a purchase of luxuries in a shop with the employment of labourers to produce luxuries—is quite erroneously stated." What Professor Sidgwick here calls a part of the argument is really its essence. But even if he had exposed Mill's fallacy with that explicitness which his conscientiousness seems to make so difficult to him, it would avail little against the reigning cult. Mill's and Fawcett's are still the current manuals.

The same comment is applicable to the latest and most magistral English treatment of Mill's Fundamental Propositions. In his ripely considered Principles of Economics, Professor A. Marshall puts forward a view of Mill's doctrine which, while apparently expressly framed to give the most reasonable sense to his Fundamental Propositions, ends by reducing them to nullity. Professor Marshall admits[1] that the statement that industry is limited by capital is "an awkward and unfortunate sentence;" and in examining it later[2] he says that it "has been applied for many purposes," and that Mill himself "chiefly" used it to show that protective duties cannot increase the total employment of labour. Professor Marshall offers no further defence. "This first Fundamental Proposition of Mill's," he continues, "is closely connected with his fourth, viz., that *Demand for commodities is not demand for labour, and this again expresses his meaning badly*." That is to say, Professor Marshall tries to find a better meaning for Mill's words than he ostensibly meant to give them. It is thus suggested:

> "It will be found that in every instance in which he has chosen to illustrate the doctrine, his arguments imply, though he does not seem to be aware of it, that the consumer when passing from purchasing commodities to hiring labour, postpones the date of his own consumption of the fruits of labour. It is this postponement, this waiting, that in Mill's illustrative instances really increases the capital ready to aid and support labour; and therefore increases the effective demand for labour. And the same postponement would

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[1] 1st ed., p. 138; 2nd ed., p. 133.
[2] 1st ed., pp. 569, 570; 2nd ed., pp. 575, 570.

have resulted in the same benefit to labour if the purchaser had made no change in the mode of his expenditure."

Here an attempt is made to minimise the absurdity of Mill's argument, yet even thus it is admittedly nugatory. I have only to add that Professor Marshall, in putting the best form on the fallacy, himself makes an unwarranted statement. He gives no proof for the assertion that the postponement of consumption of what is made "increases the effective demand for labour." He too, in turn, has forgotten the "velvet-makers," who in the terms of Mill's case will be either unemployed or half-employed when the employer finds a falling-off in the demand for his products. Thus Professor Marshall does not finally take note of the fundamental fallacy of all four of Mill's propositions; and the doctrine of saving is left in command of the field. Every British student of economics is still shown the folly of the young nobleman who bought eighteen waistcoats to help trade, instead of lending money to the tailor to make unsaleable waistcoats, or lay in superfluous cloth.

And one of the most respected of English economists since Mill, Professor Cairnes, who had the merit of repudiating the old laissez-faire optimism and dealing frankly with the political side of economics in the light of his knowledge, has stood sted-fastly to the old faith on saving.

> "I take it to be a fundamental and indispensable condition of all progressive human society, that by some means or other a large aggregate capital available for its requirements should be provided. Without such a fund, accumulated from the products of past toil, division of labour and continuous industry are impossible; population cannot attain the degree of density indispensable to civilised existence; nor can that amount of leisure from physical toil be secured for any considerable portion of the people which is required for the cultivation of science and literature."[1]

Professor Cairnes, though here pointing to social arrangements which might obviously be set up on other lines than that of money-saving, could not conceive that the special process of "sacrifice"

[1] *Some Leading Principles of Political Economy*, ed.1884, p. 271.

which he saw in "saving" might be enforced in a socialised State by mere "benevolence and public spirit," and accordingly decided on that ground against Socialism. He was positive that " capital can only be created by saving," and accordingly declared: "If then the labourer is to emerge from his present position and become a sharer in the gains of capital, he must in the first instance learn to save."[1] That is to say, there may be universal saving, with gain all round—the old doctrine in its wildest form. It is nothing to the purpose that Cairnes points to the money-claim wasted annually by the workers on drink; for if that money were saved it would do nothing for the distillers' and brewers' men thrown idle. Only fresh consumption could provide employment for them, and no provision is made in the argument for such fresh consumption. Cairnes, with all his sincerity and aspiration, was but helplessly repeating the old shibboleth, having done nothing to analyse afresh the special problem involved. He did, indeed, repudiate the notion that the idle rich class conferred a public benefit:—

> "It is important, on moral no less than on economic grounds, to insist upon this, that no public benefit of any kind arises from the existence of an idle rich class. The wealth accumulated by their ancestors and others on their behalf, where it is employed as capital, no doubt helps to sustain industry; but what they consume in idleness and luxury is not capital, and helps to sustain nothing but their own unprofitable lives. By all means they must have their rents and interest, as it is written in the bond; but let them take their proper place as drones in the hive, gorging at a feast to which they have contributed nothing."[2]

Here, however, the moral outburst counts for nothing in view of the economic doctrine; inasmuch as Cairnes goes on to insist that the only way to keep industry going is to reward the drones for their or their ancestors' act of saving, which he pronounces all-essential. Naturally, the average man pays little heed to a diatribe thus countervailed by its author's own admissions. Cairnes had, indeed, on his own showing, no right to say that the idle rich "contributed nothing:" he expressly credited them with "sustaining industry" by their capi-

[1] Ib., p. 287.
[2] Page 35.

tal. His net prescription thus came to this, that in order to be wholly admirable, the capitalists had only to go on accumulating capital unceasingly while living as frugally as possible. It would, on his own principles, avail them no more to spend money on public objects than to spend it on private, since industry is only "sustained" by the productive employment of capital. Thus, Cairnes's economic advice to his generation, despite the entire wisdom of such a negative proposition as that quoted on our title-page, was finally futile, amounting to the old counsel to produce without consuming, to sell without buying.

As against Cairnes's fling at the idle rich, again, the other economists of the same succession have haloed the interest-drawing class with an earned or imputed sanctification in respect of the "abstinence" which had to be practised to secure the creation of their capital to start with. And this, which is the older ethical sentiment,[1] is naturally the more popular with the interest-drawing class, who can meet Cairnes's attack with his own endorsement of the abstinence principle—a conception still so attractive that it finds favour with Professor Böhm-Bawerk, who, by way of confuting those who insist that a purely negative act can count for nothing as an aid to production, skilfully cites in support[2] of it the very citation from Spinoza which Marx[3] employed to show that any act may be regarded as an abstinence from its contrary. Of course, the common interpretation of Senior is a trifle less sophisticated, at least in his native land. Here he has been one of the prophets of saving; and if some, refusing to endorse Mill's applause, have rejected this formula, even these have let the implied prescription for conduct go uncontradicted.

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[1] Professor Böhm-Bawerk (*Capital and Interest*, Smart's trans., B. IV., ch. i., p. 209), following Marx (Capital, I., ch. xxix., sec. 3), speaks of Senior as the founder of the abstinence theory. But, as Böhm-Bawerk notes, it was put by Poulett Scrope (*Principles of Pol. Ec*, 1833, p. 140) before Senior published his treatise; and it was explicitly laid down long before either by Petty, who described interest as "a reward for forbearing the use of your own money for a term of time agreed upon." (*Quantulumcumque*, cited by Lauderdale, p. 152). No doubt Senior gave the doctrine its currency. (Cp. Marx, B. I., ch. ix., sec. 3, note.

[2] *Positive Theory*, p. 123.

[3] As last cited.

In French and German economics, so far as I have seen, there has been on this point the same preponderance of Smithian dogma, though Rodbertus and others have called for modifications. Roscher has, of course, contemplated the problem, but is characteristically inconclusive. He does indeed make an explicit statement of the necessary limitation of capital.

> "It may be seen from the foregoing that the mere saving of capital, if the nation has to be really enriched thereby, has its limits … As trade becomes more flourishing, smaller stores answer the same purpose.[1] And no intelligent man can desire his productive capital increased except up to the limit that he expects a larger market for his enlarged production."[2]

This, however, does not squarely put the point as to individual money-saving; nor is it definitely put in the following observations:

> "If a people were to save all that remained to them over and above their most urgent necessities, they would soon be obliged to seek a wider market in foreign countries; but they would make no advance whatever in higher culture nor add anything to the gladness of life. On the other hand, if they would not save at all, they would be able to extend their enjoyments only at the expense of their capital and of their future. Yet these two extremes find their correctives in themselves." … "The ideal of progress demands that the increased outlay with increased production should be made only for worthy objects, and chiefly by the rich, while the middle and lower classes should continue to make savings, and thus continue to wipe out differences of fortune." … "That there is, at least, not too much (!) to be feared from the making of too great savings is shown by Hermann, St. Untersuch. 371 et seq. On the other hand, there is less wealth destroyed by spendthrifts than is generally supposed, for spendthrifts are most frequently cheated by men who make savings themselves (Mill i., 5, 5)."[3]

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[1] So in English translation, made from 13th German ed. The passage is not in my copy of the original, 3rd ed., and it seems unfortunately put.

[2] *Principles of Political Economy*, sec. 221, Lalor's trans.

[3] Ib. and note.

This somewhat bi-frontal performance is probably the most advanced practical teaching on the subject in German economics. Walcker[1] does indeed speak of capital with some alertness of perception:—

> "Die Begriffe Capital und Vermögen verhalten sich ähnlich wie die Begriffe Ertrag und Einkommen. Im Worte Vermögen liegt ein Hinweis auf den oder die Eigenthümer einer Summe (z. B. ein Haus und Werthpapiere) oder eines Organismus von wirthschaftlichen Gütern, während das Wort Capital etwas unpersönliches enthalt. Es bezeichnet ein Vermögen oder einen Vermögenstheil in seinen objektiven Beziehungen zur Production, zum Umlauf and zur Consumtion der Güter. In der Regel geht nur das Vermögen, aber nicht das Capital eines Verschwenders oder Bankrotteurs unter; das letztere geht meist in andere Hände über."[2]

But a few pages farther on,[3] Dr. Walcker begins to make it intelligible how abstract conceptions of capital may be brought into discredit:—

> "Das Capital zerfallt, entsprechend seinem Begriff, in folgende Classen: Landgüter, Grundstücke, Bergwerke, Bodenameliorationen, Bauwerke, Werkzeuge, Maschinen und Geräthe, Arbeits- und Nutzthiere (resp. Sclaven), Haupt- und Hilfsstoffe, Unterhaltsmittel, Handelsvorräthe, Geld, körperliche und geistige Arbeitskraft und immaterielle Capitalien. Zu den letzteren gehören der Staat, die Cultur eines Volkes und streng genommen auch ein gesundes kirchliches Leben, wenn es nicht unpassend wäre, das Ewige unter eine ökonomische vergängliche Kategorie zu Ziehen."[4]

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[1] 2 *Lehrbuch der Nationalökonomie*, 1875, S. 8.

[2] "The ideas capital and property relate together similarly with the ideas proceeds and income. In the word property is implied an allusion to the ownership of a total (e.g., a house and title-deeds), or an organism of domestic possessions, whereas the word capital implies something impersonal. It indicates a property or a portion of property in its objective relation to production, to circulation, and to consumption of goods. As a rule, only the property and not the capital of a spendthrift or bankrupt is destroyed; the latter mostly passes into other hands."

[3] S. 14.

[4] "Capital, corresponding to its idea, divides into the following classes: Landed estates, plots of ground, mines, soil-improvements, buildings, implements, machines

After this it is not wholly disappointing to the believer in immaterial capital to find Dr. Walcker[1] making the orthodox declaration:—

> "Die alte Irrlehre, dass die Reichen, resp. die Regierungen Almosen geben, wenn sie verschwenden, spukt noch immer. Jede Luxusausgabe vernichtet ein Capital, welches, productiv verwandt, die Subsistenzmittel des Volkes vermehrt hätte."[2]

Thus, within twenty pages of his statement that, as a rule, only the property (Vermögen) but not the capital of a spendthrift or bankrupt is destroyed, the latter mostly passing into other hands, Dr. Walcker affirms, in flat self-contradiction, the old dogma that "every luxurious outlay annihilates a capital which, productively applied, would have increased the means of subsistence of the people." It is the old fatality. Especially piquant, in the circumstances, is the old specification of "luxurious outlay" as a cause of annihilation of capital. On the same principle, obviously, every outlay whatever would do the same thing; and all expenditure, and accordingly all consumption, becomes an evil, to be minimised by the self-denial of the righteous, prepared thereto by "a sound spiritual (kirchliches) life—if it were not improper to bring the Eternal under a transient economic category."

Only a German can attain to quite such transcendent heights; but on the strictly economic line of the argument, Dr. Walcker is not unrivalled in France. One of the most widely-read manual-makers, M. Joseph Gamier, outdoes Smith in his denunciation of the prodigal and his praise of the saver, arguing explicitly that to spend is to annihilate labour, in terms which imply that all consumption is, at best, a necessary evil, while production is man's mission on earth:—

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and utensils, animals for labour and use (in a sense, slaves); principal and accessory materials, means of subsistence, stock-in-trade, money, corporal and mental labour-power, and immaterial capitals. To the latter belong the State, the culture of a people, and, strictly speaking, a sound religious life, if it were not improper to place the Eternal wilder a transitory economic category."

[1] S. 37.

[2] "The old error, that the rich, or rather the ruling classes, give bounty when they squander, is always cropping up. Every luxurious expenditure annihilates a capital, which, productively applied, would have increased the people's means <>f subsistence.

"Toutes les fois qu'un capital se dissipe, il y a dans quelque coin du monde une quantité équivalente d'industrie, qui s'éteint. Le prodigue qui perd un capital augmente la première année le revenu de ses fournisseurs, souvent peu recommandables, mais il détruit pour les années suivantes le salaire des hommes laborieux dont son revenu eut alimente le travail"—[1]

would have alimented, that is, in employing them to make goods which it would in the nature of the case be prodigality to buy.

And again:—

"Pour apprécier les funestes effets de la dissipation, il suffit de remarquer qu'une valeur épargnée devient une valeur capital dont la consommation se renouvelle sans cesse, tandis qu'une valeur dissipée ne se consomme qu' une fois"—[2]

the thing saved being here envisaged as value, without any recognition that to multiply value is in no way to feed labouring men. M. Gamier has, probably unintentionally, committed himself to one of the delusions of the Physiocrats.

Helplessly led by McCulloch, M. Garnier goes on to recognise that luxury is after all a relative thing, and not to be condemned in the spirit of the old moralists; and in this view reasons that outlay is to be decided on by each for himself, with a view to the highest kinds of enjoyment; but here the good gentleman pulls himself up to reiterate that

"Il ne faut pas oublier que l'homme économe qui se borne au nécessaire rend, de son côté, des services a la société par la forma-

[1] "Every time that a capital is dissipated, there is in some corner of the world an equivalent quantity of industry which is extinguished. The prodigal who loses a capital increases for the first year the revenue of his caterers, often not very respectable, but he destroys for future years the wages of laborious men whose labour his revenue might have maintained." (Traité d'Economie Politique, par Joseph Gamier, Gième édit. , sec. 843.)

[2] "To appreciate the pernicious effects of expenditure, it suffices to remark that a saved value becomes a capital value of which the consumption renews itself without cessation, while a value expended is only consumed once." Id. ib.

> tion d'un capital, d'un instrument de travail, de progrès et d'émancipation physique et intellectuelle"—[1]

that is to say, the thrifty man renders a service to society in consuming only the necessary and causing to be produced the unnecessary, which, we have just been told, it is economically injurious to the community for the individual to buy. So that "progress" is always an economic loss to the community. Similarly M. Droz inculcates saving in a paragraph in which he unconsciously specifies its bad effects:—

> "II ne faut donc point, dans des vues d'intérêt pour le commerce, déclamer contre la prévoyance et 1'epargne. Ce qui paralyse surtout les capitaux, ce sont les circonstances où, mécontents du présent, inquiets de l'avenir, les hommes industrieux suspendent leurs projets, et nième craignent de prêter leurs fonds a ceux qui se montrent plus confiants ou plus téméraires. Alors les capitaux se resserrent, le travail languit, la souffrance devient générale."[2]

That very paralysis of production here described is obviously a consequence of such saving as is being recommended, inasmuch as producers will always produce where there is market demand. Here it is not even pretended that industry is paralysed by lack of "capital;" and yet the advice to amass more capital is endorsed. Such is the drift of economic prescription in France as in England, the habit of saving being indeed much more rooted and general in France than here. There must, I suppose, have been enlightened protest against the delusion in France as there has been in England; but it has counted for nothing, the only visible opposition being that implied in the socialistic movement, which does not specially attack the economic fallacy of saving. Nay, so thoroughly did the Smithian succession

[1] "We must not forget that the thrifty man who limits himself to necessaries renders, on his part, services to society by the formation of a capital, an instrument of labour, of progress, and of physical and moral emancipation." Ib. sec. 818.

[2] "We must not then, with a view to helping commerce, declaim against foresight and saving. What chiefly paralyse capitals are the circumstances in which, discontented with the present, anxious for the future, business men suspend their projects, and even fear to lend their funds to those who show themselves bolder or more confident. Then capitals are locked up, trade languishes, hardship becomes general" *Economie Politique*, par Joseph Droz, 1854, p. 49.

establish the optimistic dogma of the all-sufficiency of saving and investment, that when, a few years ago, a London alderman sought to make out that the Lord Mayor's banquet was "good for trade," the outcry against him was virtually universal. He was ridiculed, not for defending a gross and vulgar form of expenditure as distinguished from worthier forms, but for supposing that any kind of expenditure could help trade half as efficiently as would the act of putting the money in the bank. Smith's saving clause about "public opulence" had disappeared from economic memory, and the argument was pure Bonamy Price—for the newspapers had not room for sophistry on the scale of Mill. Not only the middle-class press but professedly socialist economists[1] hurled at the friendless alderman the information that if he or his colleagues had only put their money in the bank it would have gone to build railways—for it is always railways that are supposed to spring from accumulations. This was at a time when "money" was notoriously abundant and extremely cheap, and when promising concerns, such as brewery companies, could have sold their shares ten times over. If the dogma of investment can thus find an overwhelming majority of devoted adherents at a time when abundance of nominal capital and sluggishness of trade are equally obvious, it is not difficult to understand how it could be believed at times when interest was high and trade brisk.

[1] One of these I understand to have since abandoned his position.

Chapter VII—The Rationale of Capital— The Fallacies—The Doctrine that Supply is Demand— Capital and Misproduction.

It is easy to see, however, that the vogue of the Saving fallacy has from the first depended on the mass of misconceptions set up by applying the word "capital" to the phenomena of money-saving while conceiving it in the old sense of saved products. We saw at the outset how profoundly this procedure confused and vitiated the reasoning of Turgot. But it has been just as potent for evil in orthodox economics since. Everywhere there is made the monstrous assumption that the money, or rather claim to money, saved annually represents a saving of products and means of production to that amount. In John Mill's lamentable argument about the bricklayers and the velvet-makers, we saw him speaking of capital as a motive-force transferable from one employment to another totally different. "There was," he says at one juncture, "capital in existence to do one of two things—to make the velvet, or to produce necessaries for the bricklayers, but not to do both." He must have meant money-credit, or money-claim, which could be turned from manufactures to agriculture, or from velvet-making to tailoring and boot-making. Even in that sense the statement is absurd, for the capital is, in the terms of the case, sunk in machinery, which must be unsaleable. But since the mere payment of wages to the bricklayers would at once enable them to get necessaries, it clearly follows that the capital is merely claim on services, which can be transferred. Yet the same economist, in order to justify saving and vindicate the saver, must needs write in many other passages as if to save capital were to accumulate necessaries of industry, without which it must collapse. So, J. B. Say, even with his eye on matter and motion, speaks habitually of a "productive fund" which "renews itself" and, declaring capital to be one of the three agents of production, defined it as being at the same time an "accumulation of values."[1] James Mill, after deciding that "the instruments which aid labour, and the materials on which it is employed, are all that can be correctly included in the idea of capital,"[2]

[1] Traité, i. 99, 103, ii. 454. "Un capital n'est point la somme d'argent sous la forme do laquelle il est souvent prêté'; mais la raleur de cet argent" (ii. 455), 456; i. 97).

[2] *Elements of Political Economy*, 3rd ed., p. 17.

goes on to lay it down that in this sense capital is "evidently a result of what is called saving"; when all that is evident in the matter is that food capital is such a result—that is, primarily. If it be meant that all industrial actions result from saving because proceeding upon food, it might as well be said that they result from air or water, or health, or rationality. But James Mill[1] proceeds to declare in express terms that "the augmentation of capital is everywhere exactly in proportion to the degree of saving; in fact, the amount of that augmentation, annually, is the same thing with the amount of savings which are actually made." That is to say, the mass of machinery and tools made each year for productive purposes, added to the amount of raw material provided for manufacture, is identical with that year's savings. And as the economist must have had in his view money or nominal savings, since he offers no discrimination, and must have known he would be so understood, we find him formally landed in the extraordinary hallucination that the net amount of annual saving, recorded by the bank totals, always equates exactly with a mass of tangible "saved" materials. We can only conclude that, like Smith, he did not realise his proposition conceptually at all, but was merely carrying on a verbal demonstration, which could only have continuous significance by a continual change in the values of his terms. As it stands, it is meaningless. Certainly, James Mill has here made a bold and open attempt to settle the question of what it is that is saved by the thrifty, and to face the difficulty about the saving being made in money—the only frank attempt, almost, since Turgot. But it is a complete failure, and his successors manage no better.

Ricardo,[2] in the same way, passes with no attempt at analysis from concrete capital to capital "employed in the payment of wages," and, later,[3] speaks without explanation of bankers "employing a large capital "in discounting bills. Yet he also speaks[4] of diminution of capital as diminishing the population and the amount of production clearly meaning diminution of food. He thus implicitly accepts Mill's doctrine.

[1] Page 20
[2] Ch. i., sec.
[3] Ch. iv.
[4] Chs. ii. viii. Works, pp. 41, 87.

And that fantastic hypothesis is to this day found to be the basis of most economists' doctrine as to increase of capital. Professor Böhm-Bawerk notes that "not long ago Kleinwächter (*Schönberg's Handbuch*, 2nd ed., p. 210) could explain: 'common usage in political economy to-day considers it an essential characteristic of capital that it is a material means of production.' "[1] And Professor Böhm-Bawerk, despite his analytical method and his vigilance, lends himself to this virtual confusion of the facts of ordinary commerce—for it is a confusion to define "capital" as above without express exclusion of the common significance of money-credit. He does, it is true, make a formal division of capital into that used for production and that which yields interest, and he demurs to the refusal to call both forms capital.[2] But still he speaks of capital in the whole as "a group of products which serve as means to the acquisition of goods"[3] [= wealth]. "Under this general conception," he adds, "we shall put that of social capital as narrower conception."[4] And the reason for this definition is found to be substantially the Smithian tradition.

"Without laying any particular weight on the fact that the historical origin of the word capital indicates a relation to an acquisition or a gain, and that our reading remains true to this, it preserves the double relation—the relation to acquisition of interest on the one

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[1] *Positive Theory of Capital*, Eng. tr., B. I., ch. iv., p. 40, note.

[2] "Of recent French writers on the subject," he writes, "I ride (*Principes d'Economie Politique*, Paris, 1884) recognises the two varieties in the conception of capital with a clearness rare even in French literature, and distinguishes them as 'capitaux supplément lucratifs,' and 'capitaux productifs.' 'Les premiers,' he says, 'sont ceux qui rapportent un revenu a une personne; les seconds sont ceux qui produisent une richesse nouvelle dans le pays' (p. 148). His only failure is that he would recognise productive capitals alone as true capitals." (*Positive Theory*, as cited.) But this of M. Gide is simply a textual repetition of what was said by Droz as long ago as 1854: "Les capitaux sont toujours des produits amassés par L'épargne, mais ils n'ont pas tous la même destination. Ceux qu'on emploie a créer de nouvelles richesse sont les plus utiles pour la société. D'autres rapportent seulement un revenu à leurs possesseurs. … [Les capitaux qui] donnent un revenu et qui multiplient les richesses de la société … sont les seuls vraiment productifs, on pourrait dire que les autres sont seulement lucratifs." (*Economie Politique*, as cited, pp. 47, 48.)

[3] There is some danger of misconception of Böhm-Bawerk's meaning at times in respect of the use desired to be given to the English word "goods" by his able translator Mr. Smart. See Mr. Smart's Introduction to the Theory of Value, p. 11.

[4] *Positive Theory*, p. 38.

side, and to production on the other—which was imported into the conception of capital by Adam Smith" [Professor Böhm-Bawerk himself shows, however, that the beginning was made by Turgot, who did it for the encouragement of saving], "and since his time has been adopted in scientific usage."[1]

Now, we have seen that Smith's notion of capital, as set forth in connection with his fundamental doctrine of saving, was confused and fallacious to the last degree; and it is impossible to see how there could be any gain to economics from adhering to his definition of capital, even if we guarded against his confusions. But Professor Böhm-Bawcrk does not finally guard against them, for while formally disputing Smith's formula that capital is the result of saving, he only substitutes the formula that it is the result of production and saving;[2] he adheres to the doctrine that all capital is material; and he explicitly sets his face against those who recognise how extensively the word means something else:—

> "Finally," he says, after discussing the various definitions, "there remain those conceptions which see in capital not a complex of goods, but an abstract quantity hovering over goods, as it were; as, for instance, Kühnast's 'sum of value,' or Macleod's 'circulating power.' I have, generally speaking, a very poor opinion of such idealisations of economic conceptions. They are usually cheap expedients for getting round difficulties."[3]

I will not presume to charge against Professor Böhm-Bawerk the use of cheap expedients, but I do say that he himself is all the while evading a difficulty. He ought to have grappled with Mr. Macleod's exposition (I pass over Kühnast), which he does not. Mr. Macleod is almost the only economist who has expressly recognised as matter of economics the distinction between *jus in rem* and *jus in personam*, concrete property and claim; and he is therefore the clearest in his declaration of the economic bearing of credit. He has laid down, too,

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[1] Ib., p. 39.

[2] This is the old position of J. B. Say, who differed formally from Turgot and Smith (Traité, i., 110-113), after saying with Smith that saving is the "only" means of increasing capitals (p. 103), and that to save values is to turn them from a sterile to a reproductive consumption.

[3] Ib,., p 58

the one truly philosophical definition of capital:—"Any Economic Quantity used for the purpose of profit."[1] This definition, I confidently affirm, will survive Professor Böhm-Bawerk's, if only we substitute "gain" for "profit." It covers a multitude of economic facts which the Professor's definition does not, though he recognises them separately as facts. It goes back (which Professor Böhm-Bawerk's definition does not, though he says so) to the pre-Smithian sense of capital as that money-credit which yields a gain. The Professor has shown[2] that Turgot had partly fixed the material sense on capital before Smith; and it is not difficult to see historically how this came about. They were on the side of home production, but also on that of parsimony, and they gave the "capital" significance rather to the kind of property which was in their day beginning to yield the largest masses of profit, as in the hands of manufacturers, who gave capital the material form. At the end of last century, and in the first half of this, the largest gains were made by traders and manufacturers, and attention was fastened on their plant as the chief or "capital" means of acquiring wealth. In later years, competition has greatly lowered the profits of trade and manufacture, and the multiplication of investments has, in general usage, distinctly tended to give the term capital a significance largely made up of mere money-credit or claim.

And the practical necessity of a reformed definition is finally proved by the collapse of Böhm-Bawerk's own. The collapse takes place, according to precedent, when he deals with the doctrine of saving. He argues, as we saw Cairnes did, that saving would be as necessary in a socialistic as in a competitive community. But his proof shows that what is needed is not at all saving in the normal sense of the term.

> "The method," he says, "would simply be to put a considerable proportion of the national workers to very lengthy processes, whereby the making of capital, in the form of intermediate pro-

[1] *Economics for Beginners*, p. 45. See also the valuable treatise on Capital in his *Dictionary of Political Economy*, where he traces the history of the idea.

[2] Work cited, pp. 24-30. But on this see Macleod.

> ducts, would be very great, and the amount of matured products in the future would be much increased."[1]

Quite so; and thus is Cairnes answered. The socialistic State would *make* its "capital"—plant; and to call this process "saving," after recognising its nature, is to make a confusion of language doubly unwarrantable in view of Böhm-Bawerk's own excuse for his old-world definition of capital. In regard to present-day saving, however, he himself supplies the refutation of his definition of capital, and of his endorsement of the doctrine of saving. He admits that the undertakers or master-producers "do not decide at their pleasure" the direction which the national production takes; "they follow impulses given by the *prices of products*. In the last resort, therefore, it is not the undertakers who decide the direction of national production, but the consumers, the 'public.' " Nothing can be more explicit: here we are fully delivered from the hallucination of Mill. But note how the difficulty as to general saving is finally evaded by Professor Böhm-Bawerk. He allows that a check of consumption causes loss and hardship, but argues that the demand for consumption-goods must not be so great as to take all the labour-power and leave none for replacing and extending plant. Therefore, so much (of what?) must be "saved" as will employ labour in doing this. Now, it is a matter of fact that in ordinary commerce the replacement of plant is an ordinary charge on a business, and is normally met by the plant-owners themselves, leaving only extensions of plant to be met by outside "savings." In any case the replacement and extension of plant is clearly a charge strictly limited by the state of consumption, and represents just that amount of "saving" or "capital-making" that is argued for by Lauderdale in opposition to Smiths doctrine of unlimited saving. Yet Böhm-Bawerk does not once put this explicitly. The necessary savings, he declares,[2] "will be spent in the increasing of capital," because—

> "An economically advanced people does not hoard, but puts out what it saves, in the purchase of valuable paper, in deposits in a bank or savings bank, in loan securities, etc. In these ways the

[1] *Positive Theory,* B. II., ch. v., pp. 113, 114.
[2] Page 115.

amount saved" (no limitation) "becomes part of productive credit; it increases the purchasing power of producers for productive purposes; it is thus the cause of an extra demand for means of production or intermediate products; and this, in the last resort, induces those who have the regulation of undertakings to invest the productive powers at their disposal in these intermediate products."

Here we have one of the abstract formulas before rejected. What is saved is here just purchasing power. Either this saving is capital or it is not. If not, Böhm-Bawerk's argument collapses to insignificance. If yes, his definition of capital has broken down. And this last is what really happens. As regards the general problem of individual saving, he has passed it by. It is clear that saving in excess of the purchasing power needed to cause the making of plant or intermediate goods enough for the industrial situation, can have no producing influence, there being only a given amount of demand for consumption products; but Böhm-Bawerk does not say so. What he proves gives no economic countenance to the doctrine of general saving; yet his general language has the air of giving such countenance, and he never undeceives his readers. In view of the clear collapse of his definition of capital, we can only conclude that he had not seen what the problem really was. His further paragraphs[1] are perfectly irrelevant to it, as he simply proves over again that if the demand for consumption-goods were so great that all existing labour-power went to producing them, the stock of "capital," = plant and intermediate goods, would fall off with disastrous results. This obviously impossible conjuncture figures as a final implicit justification of the practice of money-saving in general.

Old sensations revive when we find Professor Böhm-Bawerk after this performance going on to explain with serious unction that in his foregoing exposition lie has "risked being tedious rather than being suspected of sophistry." I will not accuse the Professor of sophistry save in the sense of paralogism. But I affirm that he docs substantially what Smith and Mill did in their turn—go astray over one of the greatest of the practical issues of European economics; and I can only offer the old explanation, that he was dominated by a desire to

[1] Pages 110, 117.

justify the prevailing social ideal and practice. Fortunately, he being the later and the closer reasoner, his argument contains the larger measure of sound statement, and the less measure of unsound. His practical fallacy is an implication rather than a statement; and he shows consciousness enough of his exigencies to make it likely that his exposition will yet be recast. In the next chapter he writes[1] with significant heat:—

> "If anyone is stupid enough to interpret the theory of saving as meaning that finished capital in its form of concrete capital must be 'saved,' he must submit to the retort that man cannot eat iron machines. But that is not at all the meaning of any thoughtful representative of the theory. What is maintained is only that, without saving, capital cannot be made or increased; that saving is as indispensable a condition of the formation of capital as labour. And this is literally correct."

What is here called stupid is the express doctrine of the apostolic succession of economists, who say that it is products that are "saved." Those who have said otherwise have been those who, like J. B. Say and Mr. Macleod, recognise capital as an abstract. And Böhm-Bawerk, as we saw, has himself explicitly defined capital as consisting in concretes, and has expressly depreciated other definitions as evasions of difficulties. Now he implicitly admits that capital may have a non-concrete form. Yet all the while he evades plainly answering the general question,—What is saved? His case of the socialistic community, however, gives the simple answer. It is industrial motive or inducement (in our society, claim to wealth or purchasing power) that is needed to make labour do anything, and "saving," properly so-called, is only our special blind competitionist form of accumulation of such power or motive, an accumulation always defeating itself by misdirection. So that the doctrine of universal thrift is once more seen to be a futility, and the old definition of capital a stumbling-block, on the line of the latest economic analysis.

And yet the ruck of the economists, as of the politicians, mostly adhere to the Smithian conception, vitiated as it is by the flagrant

[1] Page 119.

fallacies of its application. Knowing that the claims of investors in national debts are constantly reckoned as capital, they persist in talking of all capital as consisting in material things.

On such a foundation, error is sure to arise. Even Mr. Macleod, who sees that rights are economic quantities, and as such, like other credit, may be capital, does not recognise the Fallacy of Saving as it pervades our economics. And if Mr. Macleod misses the practical or sociological upshot, the more orthodox economists do worse. Just as some assume all banked credits to be represented by actual money, despite the notoriety of the fact that they cannot be, so do others assume all credits to be represented by saved products despite the obvious fact that they cannot be. Professor Sidgwick, rightly deciding (though he has since gone back on his perception) that "the greater part of the 'unequalled loan fund' of Lombard Street can never emerge from the immaterial condition of bankers' liabilities," points out that

> "this obvious truth is overlooked, or even implicitly denied, not merely in all formal definitions of money, but in most of what is said and written about the functions of bankers. Mill, for instance, implies over and over again that the medium for exchange, which it is the business of bankers to collect from private individuals and lend to traders, consists altogether of coined metal—or at least of coin and paper substitutes for coin made legal tender by Government. A similar implication is contained in much of Bagehot's language. And indeed I hardly know a single English writer on the subject, with the exception of Mr. Macleod, who does not continually present this view to his readers."[1]

But if it be a serious blunder to conceive of all bank credits as being represented by money in the ordinary sense of the term, it is an immensely more serious blunder to conceive of all such credits as being represented by saved goods. Says Mr. Macleod:—

[1] *Principles of Political Economy,* 1883, pp. 236,237. Let the reader note how distinctly the admission made here conflicts with the teaching in the *Elements of Politics,* cited in our first chapter.

> "It is a very prevalent opinion, even among men of business, that real bills are essentially safe, because they arise out of real transactions, and always represent property. But … we have seen that in the most legitimate course of business there will generally be two or three bills afloat arising out of the transfers of any given goods; so that, in the ordinary course of business, there will be twice as many bills afloat as there is property to which they refer."[1]

What is true of bills is equally true of the mass of credits in general. The added ciphers of the bankers' books represent no addition of "saved products" to the store of such products available for the "maintenance of industry," but simply the metaphysical fact of so much general "claim to wealth," claim of which the validity is constantly fluctuating, being plainly dependent on the extent to which individual claims are at any moment sought to be realised, relatively to the state of production. It ought to need no demonstration that if the purchasing power of money is a fluctuant, much more so is the wealth-claiming power of credits, which are but claims to money. In our industrial system, services are rendered only for the reward of a lien over other services, and this lien is in the last resort represented by money. While, however, we wish to accumulate our claim on services in general, we cannot all accumulate it in money, and so it comes to be stored up in simple credits. Thus the nominal mass of saved capital represents simply claims to wealth or power to buy services, and, so far from the wealth being actually saved, it is in large part purely prospective, for the services which are to constitute it have not yet been rendered. As the National Debt burdens in advance the industry of the future, so does all saving of conventionally recognised claim to wealth constitute a lien over future labour.

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[1] *The Theory of Credit*, 1800, vol. ii., pt. i. p. 344. Mr. Sidgwick, in acknowledging his obligations to Mr. Macleod, adds: "I must guard myself against being understood to approve of Mr. Macleod's general treatment of Economics." I regret that in making similar acknowledgments I must make the same qualification. In the passage I have quoted, Mr. Macleod lays his linger on a great delusion, profoundly affecting economic science; further on (pp. 481-G) he does desperate battle against the mere verbal solecism of calling the National Debt a mortgage on the property of the country instead of a charge on its income. A reader is invited to suppose that these issues are of equal or similar practical important.

The recognition of these simple truths would rid economics of two correlative dogmas which stand in the way of all scientific reconstruction of the social system. The first is that, but for assiduous "saving" of claim to wealth, industry would collapse: the second, that multiplication of "saved" claim to wealth means increase of national wealth.

I. The fear of decline of industry through defect of "capital," in the sense of bankers' liabilities, would be annihilated by the perception that "credit is capital" in precisely the sense in which "savings are capital." Professor Sidgwick's fear of the explicit makes him give only a half-confident exposition of this truth. Mill, he notes,

> "speaks contemptuously of an 'extension of credit being talked of … as if credit actually were capital,' whereas it is only 'permission to use the capital of another person.' Now, in a certain rather strained way, we might say this of gold coin: its function is to 'permit' or enable its owner to obtain and use other wealth. And it is only in this sense that Mill's statement is true of the credit or liabilities which a banker lends to his customers, whether in the form of notes, or under the rather misleading name of 'deposits.' This credit, no doubt, is a comparatively fragile and perishable instrument for transferring wealth; but that is no reason for ignoring the fact that, in a modern industrial community, it is the instrument mainly used for this important purpose."[1]

All this should have been put as emphatically as it is put gingerly. The function of gold coin is precisely, and in no strained sense, to permit its holder to obtain and use other wealth;[2] and on the definition of capital which Mill employed in common with his predecessors, all money is simply permission or title to use capital. Having seen this even partially, Professor Sidgwick has "fallen from light" to Mill's own level of error when in his later work, before cited, he teaches that unchecked accumulation of savings is necessary to the industrial well-being of the whole community. It lies on the face of the argument before us that the power wanted is set up by simple

[1] As cited, p. 239.

[2] This is expressly stated even by Mill, B. III., ch. vii., sec. 3. Cp. Macleod, *Economics for Beginners*, p, 33.

extension of credit. And here is the whole case in a nutshell: that whereas actual money = "capital" means power to get and move products, so credit or recognised title to money means primarily power to get and move money. In practice this latter motion might actually take place, and to some extent does take place, the circulating rate of money being indefinitely capable of quickening; but since the movement of coin can in many cases be dispensed with, the movement of products which brings about fresh production takes place in great measure on the simple "permit" of credit, as represented by bankers' liabilities.

But if "faith in the bank" can admit of the movement of products and money, and thus of fresh production, so, obviously, can mere mutual faith as among producers. This is implicitly admitted by economists, such as Mill and Professor Marshall,[1] who maintain, with whatever ambiguity of meaning, that all industry depends on capital, and that all capital is saved. Professor Marshall, we have seen, deprecates Mill's formula in his latest work; but in another passage he still gives it a virtual endorsement in the sense which it properly carries. Bowing, with his usual candour, to the necessity for a widened definition of capital, he includes in individual capital " all wealth or command over wealth which is lent out at interest, whether in money or in any other form."[2] Yet he still states in a footnote[3] that "whatever definition of capital we take, it will be found to be true that a general increase of capital augments the demand for labour and raises wages." He adds that "whatever definition we take, it is not true that all kinds of capital act with equal force in this direction;" but this leaves the fallacy unrectified. His proposition remains that increase either of saved claim to wealth or of, say, machinery, generally tends

[1] Mill's *Principles*, B. III., ch. xiv., sec. 4; *Economics of Industry*, B. III., ch. i., sec. 4. Mill, in the passage cited, expressly argues that a commercial crisis is the effect, not of over-production, but of "an excess of speculative purchases." Yet he prescribes new purchases as the cure. Mr. and Mrs. Marshall, while affirming that all supply is demand, explain that "though men have the power to purchase they may not choose to use it," which by context means, if anything, that the error lies in checking their production, which might go on multiplying for ever. And still no word of consumption.

[2] 1st. ed., p. 127.

[3] 1st. ed., p. 133,

to increase the demand for labour and so to raise wages. Now, it would be a mere quibble to say that increase of machine plant augments the demand for labour in respect that labour was needed to make the new machinery, and yet only in that sense would the proposition be valid. New machinery, once made, can be employed only when there is demand for what it will produce; and saved money-claim will, similarly, only be put to the employment of new labour when there is supposed to be demand for what it can do, or hope of underselling other labour, which will be thrown idle. To demand we always return. When again Professor and Mrs. Marshall write that "The demand for labour in a district cannot in the long run be increased by any device that does not lead to an increase of the supply of capital in it,"[1] they are plainly right if they simply mean that increased employment of labour means increased consumption of food and tools, and so forth. But it does not at all follow that there must also be an increase of that nominal "saving" of money which, in the exposition of Mr. and Mrs. Marshall, as in that of "orthodox" economists in general, is sure to be understood (whatever they may have meant) from their repetition of the old formula about capital being a result of saving. And the futility of that formula in any case is now clear, when we recognise that mere mutual trust as between producers will lead to the creation of fresh capital in the concrete form of plant and stock, which but for such mutual confidence would not have come into existence, the really "saved" food-capital remaining in either case the same.

But if, finally, industrial confidence means the movement of products and the spontaneous creation of actual capital = products, then the saving of "claim to wealth" is no necessary part of the process of wealth-creation even in a competitive community. And as industrial confidence is notoriously commensurate with activity of demand, the creation of wealth can obviously be promoted by the substitution of an ideal of consumption for an ideal of parsimony.

Here, however, it will be well to carry the exposition briefly to its sociological conclusions. These are (a) that as consumption cannot be indefinitely increased in quantity of each product for each individual, the ideal must be in the main one of rising quality—the con-

[1] *Economics of Industry*, p. 16.

sumption of things and services which are not mechanically facile of production; and (b) that as such raising of the standard of consumption is impossible among a blindly multiplying population, the limiting of families is indispensable to the proposed transformation.

II. The foregoing reasoning involves the rejection of the doctrine that national wealth is to be measured by the totals either of banked credit or of the values which measure individual claim to wealth. I have said that Lauderdale devoted an unanswerable chapter to the refutation of this notion. He pointed out that on the system of computation which began in the seventeenth century and flourishes still,[1] national wealth is actually estimated in terms of popular hardship, since that increase in values which arises from relative scarcity is included among the individual riches which are totalled. He laid it down on the contrary that

> "In proportion as the riches of individuals are increased by an augmentation of the value of any commodity, the wealth of the society is generally diminished; and in proportion as the mass of individual riches is diminished, by the diminution of the value of any commodity, its opulence is greatly increased."[2]

This proposition has been denounced as a "melancholy paradox" by an able writer[3] in a passage which goes on to praise the " masterly exposition" of Ricardo's chapter on "Value and Riches," in which Lauderdale's doctrine is actually embodied. Ricardo, it is true, goes through the form of refuting Lauderdale on one contention: but he is really affirming the same thing as Lauderdale does; and if he drew up his own index, we are forced to conclude that he did not realise what Lauderdale was driving at. The index reference to Lauderdale runs: "his theory that the scarcity and monopoly of a commodity increase wealth," which is the exact reverse of Lauderdale's position. Lauderdale used "riches" to describe individual claim to wealth, and pointed out that the nominal adding together of individual riches did not rep-

[1] Compare his citations from Petty, King, Hooke, Pultency, and Beeke, pp. 39, 40.

[2] Work cited, p. 49. Cf. p. 57.

[3] J P. J. Stirling, *The Philosophy of Trade*, 1846, p. 10. This writer among other things made important correction of Ricardo's doctrine of rent.

resent real national wealth at all. Ricardo, of course, admits that scarcity of commodity would "enrich" the holders. He writes:—

> "Let water become scarce," says Lord Lauderdale, "and be exclusively possessed by an individual, and you will increase his riches, because water will then have value; and if wealth be the aggregate of individual riches, you will by the same means also increase wealth. You undoubtedly will increase the riches of this individual, but inasmuch as .. all men give up a portion of their possessions for the sole purpose of supplying themselves with water, which they before had for nothing, they are poorer … and the proprietor of water is benefited precisely by the amount of their loss."

Quite so. But inasmuch as the nominal values of the transferred possessions remain, the "total of individual riches," in Lauderdale's sense, has increased by the nominal value of the (unconsumed and prospective) water, though, in the terms of the case, the well-being of the majority has diminished. And if for a promptly consumed commodity like water, we substituted a fixed commodity like land, the case would be still clearer. The upshot is, as Ricardo puts it, that "value is not the measure of riches," when by "riches" you understand, not individual claim to wealth, which was Lauderdale's definition, but what Lauderdale called public wealth. He and Ricardo were at one, the opposed doctrine being that of the Physiocrats, who, as before noted, counted a rise of prices as an addition to national wealth. And that very doctrine is subsumed in the estimates of national wealth which still pass current, and in the notion that "savings" are part of such wealth. The economic truth is accurately put by Ruskin in the formula that riches are "a power like that of electricity, acting only through inequalities or negations of itself. The force of the guinea you have in your pocket depends wholly on the default of a guinea in your neighbour's pocket."[1] And the final sociological truth is that "savings" in the last resort represent a power to extort the labour of those who have been unable to "save," from having to toil

[1] *Unto this Last*, p. 40. Compare Coleridge: "Half the wealth of this country is purely artificial—existing only in and on the credit given to it by the integrity and honesty of the nation." *Table Talk*, March 20th, 1831.

for bare life from their childhood, or being ill-fitted for a life of struggle.

Nor is this all. Not only does the system of saving offer no special security for the continuance of industry, but it constitutes a visibly and peculiarly disastrous means of misdirecting human energy. Few economic hypotheses are more audacious than the orthodox assumption that invested "savings" are sure to be set to employing labour "productively." To begin with, everybody is quite well aware that much of the saved claim to wealth passes to borrowing States, who spend it on implements of slaughter which in a generation grow obsolete even at that; and to the mere buying of foreign land. But it is further notorious that of the annual savings of claim to wealth an immense mass passes away, even on the bankers' books, in respect of futile undertakings for the production of certain forms of wealth. Mill, coming in his fourth book[1] to a question with which he ought to have grappled in connection with his so-called *Fundamental Propositions*, admits that there goes on a great waste of capital in periods of overtrading and speculation. Noticing the fact thus late in the day, he pronounces it "so simple and conspicuous that some political economists, especially M. de Sismondi and Dr. Chalmers, have attended to it almost to the exclusion of all other "causes of hindrance to the downward tendency of profits. But it is not merely in "periods" of over-trading that this loss goes on: the financial journalists chronicle an annual loss of many millions. And this loss takes place because the kind of stimulus given by "saving" to production is so ill-related to the real needs of the community, setting up as it so often does a speculation on increased demand when actual demand seems to be provided for. A regimen of consumption would not incur these disasters of the regimen of parsimony; that is to say, it would not mean the gambling of producers for large hauls on which to subsist by way of investment.

It is only right to admit that these annual miscalculations of capitalists benefit the workers in respect that they really mean processes of consumption. "What is saved is consumed," as the orthodox formula has it. And this brings us to one more refutation of orthodoxy—

[1] Ch. iv., *Of the Tendency of Profits to a Minimum*.

of the doctrine, that is to say, that "the destruction of things is not good for trade."[1] Seeing that the same creed has all along contemplated the mere consumption (destruction) of saved capital as constituting the benefit derived by the workers from capital, we have here a mere dogmatic suicide. Orthodoxy is reduced once more to the Leibnitzian position that it is "good for trade" to consume at a certain rate (else all trade is a perpetuity of disaster), but not to consume any quicker; and that ordinary commerce sets the right rate.

> "It is not good for trade," we are told, "to have dresses made of material which wears out quickly. For if people did not spend their means on buying new dresses, they would spend them on giving employment to labour in some other way."[2]

Why, what does it matter to "trade" whether I employ three men in making dimsy clothes or one in making strong clothes and two in making an orrery? The orthodox position frequently resolves itself into denying that wanton destruction, e.g., the smashing of window-panes, is good for trade.[3] The argument is, that the money that has to be spent on mending the windows is withheld from the employment of labour of other kinds. But that does not follow. Where the spender is one of the "saving" class, the presumption is that he merely fails to "save" the money in question. Had he saved it, that amount of claim to wealth might have lain idle in the bank for weeks or months, or been borrowed by a gambler; or it might have gone to employ labour in making gunpowder in Russia, or to employ or over-employ some labour at home. In the former cases it gave no impulse to production. In the latter case the investment would come to the same thing with the spending labour in either case was employed, whether to make new panes not in demand or to put panes into sashes. The only difference would be that in the process of investment part of the claim

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[1] Mr. and Mrs. Marshall, *Economics of Industry*, p. 17.

[2] Ibid.

[3] When the main part of this essay was read to the Political Economy circle of the National Liberal Club, the main defence offered to the criticism on Mill was that his doctrine, "Demand for commodities is not demand for labour," really meant that mere destruction of property did not help to employ labour. But the impartial reader must see, first, that this is not at all Mill's drift, and, second, that the doctrine is economically idle. It is a part of the wages fund theory.

was diverted to the maintenance of the banking class. Since "what is saved is consumed," the question comes to this, Which class is to do any given portion of the consuming? In a community where the burdens of labour fell upon all, the breaking of window-panes would be a waste of labour representing a common loss; but in a community where one section has accumulated a mass of claim to future services, and is concerned to get for its transferred claim a perpetual tribute of new claim, those who have no accumulated claim are employed or unemployed just as their employers see chances of accumulating claim by production. And as employment is clearly more abundant when consumption is abundant, and often dwindles while there is plenty of "saving's" seeking investment, it is clear that no stimulus to demand in one direction need necessarily check it in another, and that no drain on savings need necessarily check profitable production. Of course, in practice it does do so when the savers decide to consume still less; but the fact that such abstinence checks production is the refutation of the doctrine that saving promotes production. The economic sophist cannot be allowed to employ both arguments alternately. What is clear is that the consumer, whether he saves or spends, is considering merely his own private interest, and not at all that of the community. And why should the economist suddenly demand from the workman an other-regarding scrupulosity which he never suggests to the man who saves? It is idle. A broken pane is a means of putting so much consumption in the way of the glazier. And as the problem for each labour class is just to do its share of consuming the "remuneratory capital" available, the glaziers must needs rejoice when the stress of a riot falls on windows and not on hats.

The spectacle is, indeed, painful from the point of view of an enlightened humanism; but that standpoint cannot be taken by the advocate of the principle of saving for productive investment. When the motive force of "saved" money capital is not being spent on pure futility, it is as often as not producing bad goods to undersell better. In commerce, under the regimen of parsimony, every producer seeks to produce as much as possible without consuming any more of the products that others are multiplying, much less calling for new products of a higher order which might divert labour from the abundant sorts. The Smithian economists insist that "general" overproduction is impossible, meaning really "universal" over-production. J. B. Say and Ricardo established the doctrine that, as goods exchange for goods, all supply is demand, and over-production is impossible[1]—a tenacious fallacy, consequent on the inveterate evasion of the plain fact that men want for their goods, not merely some other goods to consume, but further, some credit or abstract claim to future wealth, goods, or services. This all want as a surplus or bonus, and this surplus cannot be represented for all in present goods. On Say's theory, there could be no profit save what was immediately realised by extra consumption, and such consumption he deprecated. In Mill's hands, the sophism loses none of its outrageousness. Proceeding complacently, like his predecessors, to refute those who pointed to the glaring evils of gluts, he triumphantly explains that if only other things were as freely produced there would be no gluts. And this comfort is offered to the thousands of producers who know that their products are often in excess of effective demand, in the face of the mathematical certainty that all other products cannot be so multiplied. Mill himself, in his worst manner,[2] points out that money is a commodity like another, and that a superfluity of that would mean rising prices, which would negate a glut. He might have added that land (to say nothing of credits) is a commodity not producible in excess of demand. He is arguing that there will be no glut if everything is multi-

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[1] Say, Traité, L. I. ch. xv., *Des Debouchés*. Ricardo, *Principles*, ch. xxi. It is noteworthy, however, that Ricardo modified his first emphatic statement. In his first edition (p. 362) he writes: "Productions are always bought by productions or by services; money is only the medium by which the exchange is effected. Hence the increased production being always accompanied by a correspondingly increased ability to get and consume, there is no possibility of over-production." The passage is thus quoted by Messrs. Mummery and Hobson, whose book is described in our next chapter. But in the second and later editions the second sentence disappears, and the argument simply goes on to the effect that "too much of a particular commodity may be produced," but not of all commodities, which is an idle truism. J. B. Say also notes that the commodities required to buy others must be "of the right sort," which reduces the general doctrine to a quibble.

[2] B. III., ch. xiv. sec. 2. Sismondi (*Etudes sur l'Economie Politique*, 1837, i., 79; iii., 314) advanced the very fact of the impossibility of exchanging the same kind of goods ad infinitum in a fixed population as a plain refutation of the sophism that all supply is demand. So Stirling (*Philosophy of Trade*, p. 55) pointed out in 1840, that "labour and the products of agriculture cannot be increased in the same ratio or with the same facility as the products of manufacturing industry."

plied, when he knows everything cannot be. And while perpetrating this paralogism, and making the incredible assumption that his opponents were afraid of universal over-production, he writes of the "fatal misconception" which has "spread like a veil between them and the more difficult portions of the subject, not suffering one ray of light to penetrate."

In Mill's case the optimistic doctrine is peculiarly preposterous, because, as we have seen, he had before laid it down that the only way in which capital could keep industry always going, was by employing labour at first hand without profit. But if in Mill's case the capitalists had to ignore one chapter in order to derive encouragement from another, they had a more single-minded support elsewhere. Ricardo explicitly set forth,[1] (and this proposition he did not recast) that "Mr. Say has most satisfactorily shown that there is no amount of capital which may not be employed in a country, because demand is only limited by production." True, even Ricardo found Mr. Say imperfectly sound in his own faith.

> "Is the following," he asks in a footnote, "quite consistent with Mr. Say's principle? 'The more [that] disposable capitals are abundant in proportion to the extent of employment for them, the more will the rate of interest on loans of capital fall'—(*Traité* ii., 108). If capital to any extent can be employed in a country, how can it be said to be abundant, compared with the extent of employment for it? "

How indeed! And how could Ricardo leave the matter with that comment, knowing as he did that lendable "capital" did vary in abundance? By implication, he would have to answer that the undertakers had merely failed to employ capital as they might—a proposition disallowed by his whole habit of economic reasoning. The truth is, that Say's expression was a fresh surrender of his doctrine that supply is demand, for if he repeated the sophism that what was wanted was production of a different sort of commodities, he had no way of explaining why these commodities were not produced when capital was admittedly available—no way, that is, save admitting that consumption-demand is the limit of each kind of production. Nor

[1] As last cited.

could Ricardo offer any other explanation. But, committed like the rest to the gospel of saving and investment, he allowed the old doctrine of unlimited saving to stand in the teeth of the current refutations, and the undertakers held by the doctrine that chimed with their main inclinations—that is, if they thought of doctrine at all.

Whether or not they study the economists, the producers of popular goods have chronically exemplified the fatal tendency of the "saving" ideal towards the stage of carrying the industrial head under the industrial arm. Periodically do they find themselves outrunning demand; and though there does now seem to be a tendency towards rational organisation, it must be hard for the capital-hunter to keep short of fatality while the regimen of parsimony subsists. Over-production is chronic; and all the while, in the face of that kaleidoscopic principle that lie who supplies also demands, the over-producer (master and workman alike) is exhorted to sell as far as possible without buying, to "save" as much as possible of his wages, or the money or credit which he is paid for his goods, so as to cause that to be applied to—further production! In that case, does not his capital buy plant or labour? As for the goods produced, why, these must be left to the chances of trade. Thus are still more goods produced without being consumed, and, in self-preservation, inferior goods are produced to undersell the others, till at length nothing will serve but the dismissal of workmen.[1] So that, at any one moment of commercial history, there is either over-production, crisis, or strategic check of production; and all the while multitudes are perforce striving not to consume what they might, so that they may have something to fall back on in sickness or idleness. And all the more surely the idleness comes, and they do fall back on it. And thus life is narrowed and degraded, products made poorer, dwellings more paltry, so that the collective "comfort" of the industrial population is

[1] Doubtless the fall in prices benefits the workers before the collapse comes, just as waste of capital in bad schemes feeds them. Thus it turns out that the miscalculation of the manufacturer, which Smith put on a level with the prodigality of the spendthrift as tending to national impoverishment, is, like that, a cause of popular gain. The spendthrift's purchases, in many cases, go into the second-hand market at greatly reduced prices; and he and the unlucky manufacturer have thus both promoted "public opulence," The trouble sets in when the manufacturer shuts up his factory.

something immeasurably ignoble, like the pullulating of rabbits and mice. A great industrial city of to-day represents a poverty, in some of the main elements of pleasurable life, such as would have appalled a Greek or Roman: the public wealth of the greatest city in the industrial era is sordid penury compared with that of a city of antiquity.

From the most enlightened commercial standpoint, which here coincides with the orthodox economic tradition, future development is to be merely a matter of multiplying the conditions of cheap existence. The forethoughtful trader, that is, sees that production of ordinary machine-made commodities is always outrunning demand; and puts his faith only in "new markets" for these same commodities, in Africa or elsewhere. Even Mill, after all his polemic about employing bricklayers, and the impossibility of "general" gluts, comes at long last[1] to this view, making no attempt to bring it into harmony with his optimism. He accepts as "substantially true" the proposition of Wakefield[2] that "production is limited not solely by the quantity of capital and of labour, but also by the extent of the 'field of employment;' " and then we have this commentary:—

> " The error which seems to me imputable to Mr. Wakefield is that of supposing his doctrines to be in contradiction to the principles of the best (!) school of preceding political economists, instead of being, as they really are, corollaries from these principles; *though corollaries which, perhaps, would not always have been admitted by those political economists themselves.*"

Such a vindication of the "preceding" economists needs no discussion. The point is that, just as his "fundamental" prescription for the employment of labour was an indefinite multiplication of work for work's sake, so his independent common-sense conclusion is that we can only jog on by opening up new markets for the most facile products of labour. With all his genuine humane aspiration, he will in no

[1] B. IV., ch. iv., sec. 2.

[2] Author of *England and America* (1834), and editor of an edition of Smith's *Wealth of Nations*. In the former he exposed (pp. 74-89) somewhat diffusely, not only the prevailing fallacy as to unlimited accumulation of capital, but the glaring contradiction between the doctrine of capital and wages and the actual state of things in America. In his edition of Smith (1835, ii., 387-390) he criticises the doctrine of parsimony, admitting that his views were suggested to him by passages of Chalmers.

wise see that the line of upward progress can only be through an ideal of increasing and refining consumption all round. And what Mill would not see, the trader naturally will not.

There is one last encouragement to the ideal of parsimony which should be noticed, by way of constating all the forces of the situation. In one way, or at one point, the saving system can be seen directly to add to national wealth—I say national wealth, advisedly. Mill notes[1] that in "old countries" the tendency to fall in profits "is stopped at the point which sends capital abroad." That is the beginning of the really public advantage. "Money" lent abroad must needs go in the form of home products, in making which the workers get permits to consume; and for these products there comes back, in a certain number of cases, an annual tribute of interest in the shape of foreign products, which are thus cheapened to us in general. Of course foreign investments in English stocks and industries draw a tribute from us per contra, but the Board of Trade returns thus far show a surplus of imports over exports (whereat the blunderers lament); and while the experts can give the true interpretation of this, the "saving" class are not likely to be discountenanced in their ideal by the consideration that the gain comes of a perpetual lien on the labour of alien poor. Thus is the economic fallacy buttressed.[2]

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[1] B. IV., ch. v., sec. 1.

[2] The argument is so used by Dr. Walcker (Lehrbuch, p. 37). He notes that "a rich Englishman may buy Russian railway preferences, and thereby promote the well-being of the English people with cheaper Russian corn." But he does not stay to ask what is the effect on the well-being of the Russian people. In the terms of the case, it must be to make corn dearer to them.

Chapter VIII —"The Physiology of Industry"—A Confirmatory Argument.

Since this essay was first written, there has appeared a treatise which so ably and effectively sets forth the same doctrine, that only the difference in my method of approach makes the publication of mine still advisable. It is *The Physiology of Industry*, by Messrs. A. F. Mummery and J. A. Hobson.[1] "An Exposure of Certain Fallacies in Existing Theories of Economics" is the sub-title; and the fallacies exposed are in particular those dealt with in the foregoing chapters. But Messrs. Mummery and Hobson have made their analysis, as it were, from the other end, taking the received doctrine and comparing it with the actual processes of industry, both abstractly and concretely, analysing rather these processes than the teaching which misrepresents them, and finally grounding their refutation on their exposition of the real processes of the industrial system in the concrete. It is the more satisfactory to me, and it will perhaps be the more noteworthy to the reader, that from the different lines of approach the conclusion as to the Fallacy of Saving is arrived at with equal emphasis in both cases. Messrs. Mummery and Hobson, without dwelling on the history of the doctrine of parsimony, attack it in John Mill's statement as I have done, but they give us the profit of a confirmatory argument by working consistently on those definitions of capital and saving which were set forth, but not consistently adhered to, by the older economists. They confute Mill and the later writers as Lauderdale confuted Smith. I cannot think that the use of this definition in a general discussion is the best way of enlightening the ingenuous student; at all events, I have sought to impress on him that the old definitions of capital and saving do not quadrate with the facts and the speech of everyday affairs. But for the purpose of confutation, Messrs. Mummery and Hobson's method is irresistible.

Capital they define,[2] after a survey of the difficulties and exigencies of the case, as "(1) Raw material and goods in their various stages of development, including shop-goods; (2) plant and all ma-

[1] London: John Murray. 1889.

[2] Page 34.

chinery;" and saving they define[1] as "the difference between what is produced and what is consumed. The correct formula is as follows: production—consumption = savings." On these definitions the old doctrine can be tested with the utmost logical rigour. As the authors observe,[2] capital "has been described as 'the result of saving' by those who have not yet explained what saving means, and who afterwards appear to include in savings, the food which is not saved but consumed by labourers." Their own definition precludes confusion by clearly excluding the process of what commonly passes for saving, i.e., the "putting-by" of money or credits. And on this basis it becomes instantly apparent that, as they put it, "A belief in the infinite possibility of saving implies a belief in the infinite increase of consumption,"[3] precisely what the exhortation to saving aims at limiting. Messrs. Mummery and Hobson here seize and expose the fallacy as I have sought to do in the opening examination of Smith; noting in turn that Mill's doctrine of saving stultifies itself, inasmuch as

> "The new labourers have already got a stock of necessaries provided for them in the new wages fund, constantly maintained by a continuance of the former abstinence of the capitalists. The wealth, then, which the new labourers produce must either go to provide luxuries for themselves or for the old class of labourers, or it must provide luxuries for the capitalists, who will thus be obliged to revoke their vow of abstinence. To one or two, or all of these uses, it must be put, and in any case it will be unproductively consumed in the shape of luxuries."[4]

In fine, we may put it that Mill's doctrine in practice would work out the artificial and gratuitous multiplication of the poorest sort of labourers,[5] which we know was certainly not his social ideal. And as to Mill's successors, Messrs. Mummery and Hobson, too, note[6] how, "strange to say, those who have most distinctly repudiated the wage fund theory have retained the theory of the possibility of infinite

[1] Page 30.
[2] Page 31.
[3] Page 37.
[4] Page 45.
[5] Page 49.
[6] Page 46.

saving, which depended on it." On the general survey of the broad relation of production to consumption, they themselves sum up[1] that "if increased thrift or caution induces people to save more in the present, they must consent to consume more in the future." That is, of course, as regards "the production and consumption of the entire community;"[2] for, of course, as between individuals, the balancing consumption can be and is done by others than the savers in so far as it is finally done at all.

Now comes the independent analysis of "the physiology of production," in which it appears that "to the maker and the trader, goods, raw material, plant, etc., are valued exclusively for the more or less of purchasing power which they afford to their owners," and that, "from the point of view of the individual tradesman, all acts of sale and purchase are primarily exchanges of forms of this purchasing power." Thus, the price the baker gets for his bread keeps his capital intact when the bread is sold, the capital being merely in a constant alternation of forms; and only the act of consumption extinguishes a portion of purchasing power and annihilates "a portion of the total stock of wealth of the community."[3] (To be more strictly accurate, it should be put that the baker is always slightly increasing his purchasing power or capital in respect of his profit on sales, and that he may or may not continuously extinguish the increase by his private consumption.) Two propositions are in this way established:—

> "Firstly, that an exercise of demand (for commodities) can not diminish capital; secondly, that an exercise of demand, though it consumes a portion of previously existent wealth and annihilates a portion of purchasing power, causes the production of an equivalent amount of new forms of wealth and purchasing power"—

that is, in respect that the act of purchase passes back as a wave of impetus along the whole producing series to the first member of it, and causes fresh production. I have said that Messrs. Mummery and Hobson consistently apply the definition of capital as a set of concretes; but it is not quite clear that they do so at this point. We are

[1] Page 51.
[2] Page 53.
[3] Pages 60, 61.

here in face of a constant transmutation of a concrete into an abstract, and vice versa; and the act of consuming a portion of concrete stock (till then = capital) is balanced by setting in motion an abstract force, which is the only representative of the given amount of capital till the new stock is made. Is not capital then here something else as well as what it was defined to be? True, the authors have pointed out[1] that when half the machines in a factory are idle, or all are used only at half-time or half-pressure, "the real capital consists in half the machines, the other half being surplus or nominal capital;" and as they show (as did Lauderdale), that there may easily be concrete fixed capital of certain sorts in excess of the existing needs of the whole community, it would follow that when "purchasing power" in the form of saved credit is in excess of the industrial needs of the time (which we have seen is constantly the case), such excess is only nominal and not real capital. But that does not alter the fact that just as the unused machines still figure as capital in the owner's estimate, so the superfluous saved money-credit figures as capital. And though, as we have decided, the superfluous saved money-credit would immensely raise prices if it were all at once sought to be realised in any or all of the existing forms of concrete wealth, thus demonstrating its illusoriness, yet any one portion of it still subsists as purchasing power, and it is impossible to say what portions of it are "real" capital and what are not. And this brings us back to the question of what is realty the best definition of capital. The question is not, it has been well said, What is capital, but What is capital to be? Messrs. Mummery and Hobson write:—

> "If we are unable to say whether a particular piece of wealth which exists is or is not at the present time capital, it is absurd to maintain that our term capital can be a useful part of our economic nomenclature."[2]

But is not the philosophic form of statement just this, that a particular piece of wealth, or, in Mr. Macleod's phrase, any economic quantity, is or is not capital according as it stands or does not stand in the "capital" or "principal" relation to an industrial or commercial pro-

[1] Page 35.
[2] Page 31.

cess? Defined in this way, capital is as clearly specified as any concept whatever, and we are at once delivered from all concrete confusion, to the great gain of economic logic. The word will cover, at need, alike concretes and abstracts, goods and plant and credit and claim. And the only stipulation necessary to be made all round is that all writers shall make an end of the pretence of adding up "the capital of the country," and of the use of language about "additions to the total capital of the country,"—verbal processes which were always practically absurd, and are now specifically so. Defined as above—and this, I maintain, is the only philosophic definition—general or national capital is an infinity; and if we are to total anything included in it, it must be specifically, as plant, and stock, and machine-power, and water-power, and acreage, and productivity, and working hands. To add up credit or claim is futile. And Messrs. Mummery and Hobson, it seems to me, are finally committed to this reasoning and this definition. They explicitly state[1] that "since the community, as a whole, can never consume more 'subsistence, convenience, and amusements' than it has actually produced, it is obvious that the community [= the whole industrial public, not the nation as a receiver and spender through its political executive] can never live beyond its income." But the same line of analysis works out the conclusion that the community as a whole can never live beyond its capital, since as we have seen every act of effective demand, involving a recognised claim, goes to set up fresh production, and there is no necessary limit to credit. And this truth, as it happens, was formulated two hundred years ago, by one Dr. Bifield, cited by Lauderdale. A person, says Bifield, can waste his stock, "because his waste is finite: but the stock of a nation is infinite, and can never be consumed; for what is infinite can neither receive addition by parsimony, nor suffer diminution by prodigality."[2] This was written in 1690. The mills of economics have ground exceeding slow.

So much for theory. As to practice, Messrs. Mummery and Hobson sum up dead against the doctrine of parsimony. Treating Mill's

[1] Page 78.

[2] *A Discourse of Trade*, by H. Bifield, M.D., printed 1690, cited by Lauderdale, p. 222, note.

worst formula with the greatest consideration, they observe[1] that he "rightly contended that the demand for shop goods was not the demand for the labour which had previously produced them" (a pleasing truism which, I suppose, expresses the elusive truth recognised in the doctrine by Mr. Leslie Stephen); and they point out that "it by no means follows that present demand for shop goods is not the source of present demand for labour," but that, on the contrary, "the use of natural agents, capital, and labour, produces commodities, and demand for these commodities is demand for the [further] use of the requisites of production."[2] And now comes the sociological conclusion[3]:—

> "The identification of depression in trade with insufficient consumption or excessive thrift is, we venture to assert, unassailable. … This conclusion is of critical importance to the community: it means neither more nor less than that the community could at once and permanently enjoy a larger income. It means that the East End problem, with its concomitants of vice and misery, is traced to its economic cause, and that this economic cause is the most respectable and highly extolled virtue of thrift."

Substantially as I am in agreement with this conclusion in its economics, I will take leave to suggest certain qualifications which are necessary to make it strictly accurate. First of all, it is necessary to keep in view that the under-consumption which is specified as the cause of trade depression must not be understood as a regrettable under-consumption of the things of which there is a glut. This brings us to the grain of truth involved (unconsciously to them) in the old optimists' maxim, that the cure for a glut was extended production of the things of which there is not a glut. Not that the cure would or could operate as they supposed. The one way, on their principles, to cure a glut of boots and hats would be to consume these wastefully in exchange against other things, since mere increase of population, though thus encouraged by implication, could only after an interval of time dispose of a present over-plus. And the increase of popula-

[1] Page 92.
[2] Page 95.
[3] Page 99.

tion, on the old lines of parsimony and production, could mean ultimately nothing but new and greater periodic gluts. The real cure, as regards the labour-market, would be by way of extension of demand to objects not readily produced in excess; such as superior hand-made goods and products of art of all kinds. Here a glut is impossible, provided only that the standard of taste goes on rising with the many as it has done with the few. Art is longer than life, and there lies the true philosopher's stone of perpetual industry—the reaching towards an end forever unattained. It is nut quantity but kind of consumption, the setting up a continuous demand which shall withdraw Labour from the fatally easy fruitions of the mechanical manufacture of common necessaries, that will prevent chronic depression of trade. And such ever-rising standard of demand, it is obvious, is impossible without such a restraint of the rate of increase of population as shall give scope for the play of the higher and subtler needs without fatal encroachment on the part of the simpler and lower. These things Messrs. Mummery and Hobson should have stated as sociologists, since it is their aim and their merit to carry their economics into sociology.

Secondly, they overstate the sociological, and therefore the economic, case for consumption when they teach that simple increase of consumption may solve the "East End problem." For one thing, large families must always mean relative poverty under a wage-earning system, and, if numerous, comparative poverty, up to the revulsion point, in a socialistic system. For another thing, it must not be forgotten (some impatient readers, it may be, have long ere this accused us of forgetting) that old people cannot work to their last day for their own support, and that under a regimen of increased and increasing consumption, while healthy wage-earners (barring over-population) will certainly have a better income, there will be necessitated a new social machinery for supporting the aged. At present the aged poor (such as can become aged) go to the workhouse, or subsist painfully on small club allowances, while the less poor subsist on the fruits of their savings, that is, on the interest of their accumulated money-claim on the services of others. Now, it is idle to suppose that while the workhouse remains the only common provision for old age, those capable of saving will abstain from doing so. The instinct of self-preservation will continue to assert itself; and either the battle of saving will be intensified as more and more persons accumulate claim, or there will ensue such demoralisation of the wage-earning proletariat as took place in the proletariat of ancient Rome, unless a rational system of corporate action be developed. One or other of these three courses our civilisation must take; because even the all-essential restraint of population cannot alone secure that all who work shall have a moiety of the comfort now enjoyed by those who do not work at all, though it would greatly modify the atrocity of the present scramble for employment and the misery of the lower strata. Even a controlled population acting on the principle of parsimony will be one in which machinery will rapidly overtake the total demand for necessaries, as it has already overtaken again and again the effective demand, .so that even in such a society there would be, barring organisation, chronic industrial crises. A rising demand for the higher products is as essential as control of procreation. Moreover, the struggle of saving would grow more and more internecine in a community in which restraint of population minimised the helpless mass, and he who would live on his investments must save more and more to out-save his competitors, in the words of Messrs. Mummery and Hobson,[1] "Each is competing against the other; each is seeking to do himself the largest portion of the useful saving." But when there is any constant quantity of economically superfluous saving, it is clear, cancelment is in the main (allowing for variations of luck) a process affecting all sums of savings proportionately, and he who has the largest total will always have the largest amount of effective claim. Thus the struggle must go from bad to worse, with no relief but that chronically and partially supplied by the annihilation of masses of money-credit in desperate enterprises.

Expanding consumption, then, is not enough: restraint of population must go with it. And it is clear that expanding consumption, with or without restraint of population, involving, as it must, the surrender of the present means of self-preservation for the more or less successful in old age, will never be adopted as the general ideal until some common provision for old age is set on foot.

[1] Page 112.

In these conclusions, I think, Messrs. Mummery and Hobson must acquiesce. It is clearly not enough to say, as they do in one place,[1] that "if the community wishes to increase its capital, it must consent to increase its consumption," for there is always going on an increase in mass of consumption, and consequently in capital in their sense, by force of the mere increase of population. To the wider conclusion they are led by their demonstration of

> "the fundamental fallacy which underlies the economists' view of saving, the assumption that the interests of the community must always be identical with the interests of its several members. The statement of Adam Smith, 'what is prudence in the conduct of a private family can scarce be folly in that of a great nation,' has been taken too generally for a gospel truth. This view, that a community means nothing more than the addition of a number of individual units, and that the interests of society can be ascertained by adding together the interests of individual members, has led to as grave errors in economics as in other branches of sociology."[2]

These general conclusions, I submit, have now been proved, and no less the particular.

For the rest, Messrs. Mummery and Hobson supply a close and cogent analysis of "Over-Production and Economic Checks," which will be found to confirm my own more summary statements on that head. Following out the principle of their first chapter, that the economics of consumption cannot without fallacy be separated from that of production, and that consumption is really only the closing act of production,[3] they have really justified their title of *The Physiology of*

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[1] Page 112.

[2] Page 106, citing Smith, B. IV., ch. ii., sec 1. It should be noted that Smith, who generally saw the sound as well as the unsound view of a case sooner or later, though he so often failed to make the proper cancelment, himself remarked in another passage that "the merchants knew perfectly well in what manner to enrich themselves. It was their business to know it. But to know in what manner it enriched the country was no part of their business" (B. IV., ch. i., McCulloch's ed., p. 189); and, still more explicitly, that "the interest of the dealers in any particular branch of trade or manufactures is always in some respect different from, and even opposite to, that of the public " (B. I., ch. xi., end).

[3] A view wrought out also by Mr. R. S. Moffat in his *Economy of Consumption*, with much convincing illustration and great expository power.

Industry, which would hardly have been done by Mr. Stirling had he called his work, as he at first intended, *The Physiology* instead of *The Philosophy of Trade.* They complete the argument, finally, by a refutative chapter on "Scarcity of Gold as an Economic Factor," to which those readers may turn who feel that the arguments of the currency school call for detailed answer. I apprehend, however, that those who acquiesce in the present argument thus far will not demur to my leaving those arguments on one side.

PART II— THE PRACTICAL ISSUE.

I.

Already, perhaps, the reader, in accepting the argument, has recoiled in despair from the vast vista of social reconstruction which it opens up as the only alternative to a long decline towards darkness. He may be moved to cry out with Mr. Lang, and with perhaps the better justification as having really tried to understand the case, that "the social problem is insoluble," and that after a few centuries we shall just "worry back to barbarism." There is a certain sombre fascination in this species of pessimism that especially captures the belletrist mind, even that mind which, in resentment of other austere philosophies, formulates for itself in the name of mythological science the doctrine of a divine "Father who is not far from anyone of us,"[1] and is solaced under the pressure of the insoluble social problem by the spectacle of the "beautiful Church of England." But if the belletrist, who at least realises that there is a social problem, is thus impressed by it, we must confess that it will be hard to bring home to his public the falsity of the current economic gospel of saving.

All the forces of egoism and optimism are on its side. As a matter of fact—and this is the real crux of the case, remaining after all the economic fallacies are exposed—the average middle-class man has at present no way open to him but saving to provide for his old age; that is, the minority must "save" in order to live one day on the labour of the majority. If the saver buys an annuity, his money seeks investment all the same. How make the middle-class multitude ever realise that this proceeding of theirs is a saving only of abstract purchasing power: how make them see, even with the fall of interest before their eyes, that the more people save, the nearer nullification will be their mutual claims; that instead of being a means by which all can add to the common well-being and their own, it is only a process by which a saving minority can command the services of a non-saving majority? These, we have seen, are the facts. The increasing "savings" of the working-classes, we repeat once more, represent no saved or made property of any kind, but an abstract claim to wealth,

[1] Mr. Lang: *Myth, Ritual, and Religion*, i. 340.

which to seek at once to realise would be to prove the unreality of the wealth by immensely raising prices. It is practically a claim on services in general, and these services are only realisable in so far as alongside of the savers there remains a multitude which saves nothing or little. Let that multitude save also, and cancelment of claim begins to take place all round. But just as saving extends, cancelment of claim is proportionally going on, the result being that the more A saves the more B must save to get the better of him.

Meantime, the cure prescribed for the workers is that they shall not only be chary of consuming the goods which they live by producing, but equally abstain from consuming high-class goods, the production of which would call for labour of a higher class—labour which could not be superseded by machinery. And their saved money is consequently to be invested in the production of only the kinds of goods or services which, so far as parsimony prevails, must of necessity be forthcoming, and are for the most part only too easily multiplied. Thus their very savings do but go to facilitate the crises which throw them idle. The more they cause "capital" to abound, too, the more nearly impossible it becomes for them to be their own capitalists for productive purposes, since the savings of the upper classes go the more to form overwhelming joint-stock concerns that blight smaller undertakings. Thus, on the one hand, we have the increasing class of idle rich, living on investments, and well-to-do jobbers, living by spurious commerce; and, on the other hand, the increasing class of toiling poor, who on all hands are taught to aim at investments likewise, but only here and there to limit their rate of increase and raise their standards of comfort, though only by these last courses can they, under any conceivable regimen, countervail the constant extension of labour-saving machinery, and make new labour independent of the capital of the idlers. We are in such an impasse that even if the National Debt were rapidly paid off by way of removing a burden from industry, the result must needs be the throwing idle of many thousands, through the stinting of the consumption of fundholders left without investments, unless one of two courses were pursued. Either (a) the principle of parsimony must be generally abandoned, and the majority must demand high-class goods or services which should be more or less providable by those who formerly provided nominally high-class goods or services for the fundholders; or (b) the State or the municipalities must institute important public works (such as civic reconstruction, with good working-class houses, or comprehensive sewage-schemes), which should extensively employ and train inexpert labour. Indeed, it is clear that the contingency could not be met save by the action of both these general factors: the workers must consume if production is to be kept up. And, finally, restraint of propagation is an indispensable condition of the maintenance of the improved state of affairs.

Now, is there any prospect at present, in the face of the faith in parsimony, that either, on the one hand, the State or the municipalities will institute the necessary constructive works (which would of course have to be based on an extended taxation of rent and incomes), or that, on the other hand, the general public will recast its standards of life and insist on consuming and therefore producing more good things? Is there, again, any prospect that the State or the municipalities will institute a system of provision for old age and sickness, not by a scheme of insurance fallaciously resting on blind investment, but on a system of calculated production of the things people need? And, finally, is there any prospect that the people in general will effect that control of their rate of increase without which both of the other rearrangements would be futile?

As our sociology stands, the prospects are certainly not bright. Are they then blank? If so, why, then we have been contemplating no mere corrigible fallacy of the reason, but a radical fallacy or flaw in human things—in life itself. And who outside the school of Mr. Lang can accept such a conclusion?

It is certainly a damping reflection that most of the economists who have been cited as seeing through the Fallacy of Saving have negatively or positively failed in their prescriptions for society. Lauderdale, in arguing down the sinking fund principle, had the air of vindicating the National Debt; Sismondi attacked machinery; Mr. Ruskin has done that and rather worse things; Malthus confessedly approved the institution of an idle rich class, and lost weight also by his defence of the Corn Laws, though in that his error was not absolute, seeing that he recognised the new trouble of rapidly multiplied population, to which the Free Traders shut their eyes. Chalmers, again, made a preposterous proposal for the special support of aristocrats; and nearly all these economists in a way seemed to endorse the old notion that labour necessarily depends on the expenditure of the idle rich—a doctrine which Mr. Ruskin has on moral grounds gratuitously attacked as being that of the prevailing economists (who, as we have seen, did not hold it), and which was after all only a blundering version of the true doctrine of spending enforced by Mr. Ruskin himself. Later than Malthus and Chalmers, Mr. Moffat, who, like them, has assailed the Fallacy of Saving, has decided to credit the landlords with a moral right to economic rent as the just reward of their activities of superintendence. Nay, even Messrs. Mummery and Hobson give one a shock of alarm by offering as an ostensible encouragement to an Eight Hours Law, what amounts to a *reductio ad absurdum* of that scheme. This, I think, they must admit; as I trust they will admit the other sociological considerations urged above in connection with their conclusions. Their treatment of the Eight Hours question brought upon them the keen thrust of Mr. Bradlaugh; and I doubt not they will mend the crack in their armour. Any way, however, there arc apparently heavy odds against my concluding with a sound practical solution where so many have either failed or stopped short. I can but try.

II.

An accomplished economist of the individualist school, hearing the gist of the foregoing argument read, gave it as his opinion that the destructive criticism was unanswerable, but that the constructive suggestions made in the last few pages were unsound. It was, I doubt not, the suggestion of State action that was in view in this objection, for my critic agreed with me as to the absolute necessity of restraint of population under any regimen. And I am bound to admit that while this necessity is not generally recognised, State action in the way of providing employment must needs aggravate the industrial trouble by giving a special stimulus to population. Nay more, I admit that there are difficulties in the way of resorting to any fresh form of State employment while the State has not the power of interfering in some way with over-breeding, even if the necessity of restraint be brought home to the majority by voluntary propaganda such as is going on at present. A certain minority would for a time be reckless, and would add unfairly to the pressure on the community's labour employing machinery, while profiting by the conscientiousness of others.

The practical answer to this argument is twofold. To begin with, as I have sought to show elsewhere,[1] it is morally incumbent on the community to make an end of the social injustice that is worked by maintaining a National Debt, the interest on which means the support of the idle and comfortable classes by the poor and laborious. All interest on investments, of course, as we have seen in the foregoing analysis, means the same thing in the end; but in the case of the National Debt the community is corporately or politically responsible, and has it in its power by direct and simple action—by the simple process of repayment—to put a stop sooner or later to this particular form of social parasitism. Now, if this moral perception be acted upon, as I think it must be, and the Debt be paid off out of special taxation as rapidly as possible, an acute industrial trouble would arise, unless specially guarded against, in respect of the intensified operation of the saving motive among the investors whose principal was paid down to them. In conformity with the conventional ideal which we have been contemplating—or, let us say, on the spur of the instinct of self-preservation—they will greatly restrict their consumption until they can find new investments; and, as we have seen, this must needs be a very difficult matter. The immediate result, then, will be a serious industrial depression, since falling-off in demand for commodities means falling-off in demand for labour.

It has been objected to my previous exposition[2] that when the principal of the Debt is paid off, the taxation thereby remitted, on the score of abolished interest payments, will suffice to provide for the extra consumption necessary. But this objection overlooks three essential points: (1) that in the terms of the case there had been extra taxation to provide for the payment of the principal, and that this taxation would, by parity of reasoning, act as a restrictive of consumption; (2) that the restriction would be immediate, while the remission of taxation would only be prospective; and (3) that while the ideal of saving subsists, there is no security whatever that remission of taxation will bring about increased or raised consumption on the

[1] *Modern Humanists*, Epilogue.
[2] Epilogue cited.

part of individuals. My proposition, then, holds good, that, given a rapid repayment of the National Debt, in the absence of a general reform in the matter of consumption, which cannot reasonably be expected to take place quickly, nothing can avert ruinous industrial depression save the creation of a special demand for labour by the corporate action of the community. I can understand that a determined Individualist will face any amount of industrial calamity rather than sanction such a resort to the principle of State Socialism; but I am bound to declare that, if the circumstances be admitted to be as I say, such determined Individualism amounts to a fanaticism of a very deplorable kind. At best, the Individualist in such a case is purchasing what he regards as safety in the future at the cost of frightful misery in the present. That is to say, he does this if he assents to the demand that the National Debt shall be paid off as rapidly as possible. He has the alternative of leaving the National Debt as it is. In that case, he seems to me to identify his cause with an immense social injustice. Democratic Individualists, I submit, cannot take up such a position. On the other hand, if those who desire to abolish the injustice do not accept, along with the principle of State employment of labour, that of restriction of population, I can see nothing but new evil ahead. If they will accept the principle of restraint, I can conceive matters going substantially well, even without the legal enforcement of restraint, a thing difficult to arrange under any regimen, and plainly impossible in the present state of sociological thought. In view of the continuous fall in the birth-rate, along with an increase in the number of marriages (a clear result of the spread of Neo-Malthusian doctrine), I can conceive that public opinion and voluntary propaganda may ere long so far rationalise the general action that the recklessness of the few will not in itself be ruinous, and will serve to force on the discussion of the principle of legal interference. The more slowly that principle is adopted, the less risk is there of its being crudely or arbitrarily reduced to practice. But if the majority continue to set their faces, as at present, against the very notion of restraint, or tolerate only ascetic kinds of restraint which it would be idle to prescribe for general adoption, even if they were scientifically sound (which they are not), then there is no escape from an extension of the old trouble. Nothing short of prudence in procreation can ultimately save the proletariat from chronic hardship.

And one can but hope that the increasing plainness of the dilemma will ere long bring about the enlightenment of the Liberal politicians who are as yet given over to helpless empiricism. Already there are signs that the enlightenment is in process. One Liberal leader[1] avows an uneasy wish that his party paid more heed to the population problem. But the chances are at present that this fundamental sociological principle will be forced on national attention in connection with a new form of political agitation, which bids fair to absorb within itself several others. I mean the demand for Old Age Pensions.

III.

The rapid extension of the vogue of this proposal within the past year or two is one of the few satisfactory symptoms in industrial politics, from the scientific point of view. For a time it seemed as if the demand for an Eight Hours Law was going to absorb all the self-regarding political energy of the masses; and the prospect looked sufficiently dark, because the very failure which must so speedily discredit such a measure as that would go to discredit democratic schemes in general, and a period of inanition would follow that of miscalculation. But the Old Age Pension scheme has the advantage of appealing to the mass of the workers, while being in no way opposed to sound economic principle. The Eight Hours Law would be an economic absurdity worthy of the Middle Ages; a workers' pension scheme—as distinguished, that is, from a system of national insurance—is economically sound. And already, in one form or another, it has been declared for by politicians of different parties; on one side, for instance, by Mr. Chamberlain; on the other side, and on sounder lines, by Dr. W. A. Hunter, whose sagacious advocacy is likely to count for much. But none of its advocates has yet pointed out the weighty economic advantages it may involve; on the contrary, several of its supporters are so far from seeing these that they regard them as imaginary drawbacks, against fear of which the public must be reassured. Mr. Sidney Webb and Mr. Charles Booth, for instance, expressly argue[2] that there is no danger of a pension scheme discouraging thrift; the implication being that, with pensions,

[1] Mr. John Morley, in a speech to the Eighty Club in 1889.

[2] Mr. Webb in the Contemporary Review, July, 1890, pp, 103-4; Mr. Booth in a paper which I have not seen.

the workers will save more and not less—that is to say, will not solidify industry by consuming more and better products. But it will be the principal service a pension system can render, to encourage the workers to consume and not paralyse production by restricting their demand. Evidently we must still justify the pension scheme on economic grounds; and such justification is the more necessary because there are still some publicists who oppose the pension principle all round.

Of these the most prominent is Mr. C. S. Loch, Secretary of the London Charity Organisation Society. Mr. Loch, who has given much professional study to the phenomena of pauperism, is convinced that it is largely "created" by loose methods of poor-relief, and argues[1] that a national pension system would tend to manufacture it. In so far as the risk is alleged to arise in terms of the difficulty of escaping malingering, even among persons over sixty, the point need not be disputed. Mr. Loch's conclusion is that

> "To establish an annuity system, and not to prohibit out-door relief to the able-bodied, or perhaps to all but those who require medical out-relief, would be to foster a hybrid pauperism, in part maintained by the rates, in part by imperial and local taxes."[2]

So be it—barring only the point as to what essentially constitutes pauperism. Let it be provided that under an adequate pension system out-door relief to the able-bodied shall cease. But Mr. Loch's theory of pauperism calls for further examination. Looking at the problem from the standpoint of empirical ethics, he sees in it mainly an outcome of individual fault; and, what is more, he supposes that the faults in question, as society is now organised, constitute a source of unrelieved individual burden to all who pay the taxes which relieve paupers. But that this is not so will be already clear to many who have followed the foregoing economic analysis.

Mr. Loch cites[3] as typically or generally valid an enquiry which discriminates city pauperism as follows:—

[1] Old Age Pensions and Pauperism (Sonnenschein & Co. 1892).
[2] Page 41.
[3] Page 30.

> "Pauperism caused by old age or infirmity, without any discredit, explained nearly one-eighth of the pauperism of the township; pauperism by disease (not brought on by misconduct) or accidental injuries, involving inability to work, accounted for one-seventh; drunkenness explained 51,24 per cent."

Now, it of course never occurs to Mr. Loch that this latter section of pauperism represents anything but an infliction of loss on well-to-do ratepayers generally. He would take that view, presumably, of pauperism attributed to mere improvidence, apart from drunkenness: much more would he take it of drunkenness. And yet it is easy to show that, inasmuch as we have seen the spenders tend to keep industry going while the savers tend to paralyse it by checking consumption and market demand, the victims of improvidence have really sacrificed themselves (unknowingly, of course) to the advantage of the provident. Had the whole population been alike bent on saving, the total saved would positively have been much less, inasmuch as (other tendencies remaining the same) industrial paralysis would have been reached sooner or oftener, profits would be less, interest much lower, and earnings smaller and more precarious. This, as the reader of the foregoing chapters has seen, is no idle paradox, but the strictest economic truth. It follows, then, that since the spendthrifts facilitate the accumulations of the savers, the pauper class, in so far as its members have been industrious but "unthrifty" workers, has all along been contributing to the general prosperity as far as it could, while the more fortunate savers have as such been doing the reverse. The savers, in short, have as such been living on the spenders. Of course they also have been to some extent spending; and they may also have been industriously producing; but in the nature of the case they got their accumulation of purchasing power from those who parted with it, and their accumulations subsist only in so far as the majority has been willing to go on spending. To go back to Mr. Ruskin's words, their savings are valid in virtue of the defect of saving in others.

Apply this to the case of the pauper class, and it will be seen that even the drunkards have been putting purchasing power in the hands of others. Of the "saved" capital or money-credit owned among the upper classes, enormous sums have come from the drink trade. I suppose that even among those who hold devoutly to the doctrine of saving there will be hesitation in applauding the brewers and distillers and publicans for their services in amassing capital. But in the light of economic analysis it becomes a peculiarly preposterous hypocrisy to speak of the toping pauper as typically a burden on society while the brewer and publican are treated as bearers of the burden.

It will not be supposed, of course, that I deny the cumulative infelicity of expenditure on drink. Clearly it not only yields the most transient satisfactions at best, but on the other hand actively negates well-being to the extent of three-fourths of the consumption. But the student has now realised that if all intoxicants were totally abstained from, industrial hardship could only be averted by the setting-up of fresh consumption, which would constitute demand for the labour thrown idle. And the temperance party must be reminded that it does not at all follow that the grain unconsumed by brewers and distillers would continue to be produced, and so lower food prices. That only is produced for which there is market demand. Of course the reformed topers would consume more bread, but that would be all.

We are now in a position to pass judgment on Mr. Loch's conception of pauperism, as bearing on his opposition to a pension system. He is wrong even in his implicit notion that improvidence annihilates purchasing power and lessens the total command of society over wealth and services. He is therefore doubly wrong in his proposition[1] that under a national pension system the present "pauper pensioner would become a pensioner-pauper," and that "pauper he would remain under both guises." That is to say, Mr. Loch is wrong in implying as he unavoidably does that the man who works while he can, and then draws from the public treasury, has deserve ill of society. It cannot be too emphatically declared that the true "paupers" are those who, having done no work whatever, subsist on the interest of savings made by others. We have seen, indeed, that all subsistence on interest means in practice subsistence on others' industry; but inasmuch as investment at interest is the principal means of providing for old age, those who thus secure themselves are only getting what, broadly speaking, they are entitled to—setting aside, that is, the question of just share. When, however, we deal with those who have

[1] Page 27.

inherited money-capital, and, themselves able-bodied, live idly on its interest, the same defence does not hold. They consume services and render none; and if any are to be socially and economically disparaged, it is they. I have no wish, indeed, to set up a disparagement which would in its turn operate unjustly, inasmuch as the idle livers on investments are actually doing the economic best open to them, in many cases, when they spend without accumulating further. But if we are to be considerate to these, let us be just to those workers who do unquestionably render service to the community before they idly consume services. Mr. Loch quotes former Poor Law Committee-men as pointing out that certain forms of poor relief are "premiums upon indolence and vice." If there be any meaning in words, our systems of land accumulation and free bequest of money-capital are premiums upon indolence and vice, fostering both in the highest degree; yet it never occurs to the critics in question to say so. On the other hand, the relatively much smaller risk of promoting indolence and vice by a national pension system can be guarded against, and will be increasingly so in practice, by public interest inspiring public criticism.

Mr. Loch's general objection to a national pension system, then, breaks down alike morally and economically, he having, indeed, no economic light on the subject at all. But there is a general objection which he might very well have made—that, namely, which has been above indicated in connecting the pension scheme with the population problem. The omission all round to raise the population difficulty is at least a proof of the falsity of the common assertion that that principle is usually employed as a means of rebutting proposals made in the interests of the people. I do not here employ it with any such purpose. Rather I bring it forward in the belief that the growing acceptance of the pension principle will be the most effective means of bringing home the population principle to the general intelligence. Those who have hitherto refused to face it must then do so. Any measure of systematic State provision for the necessities of the people will constitute a clear national risk, unless at the same time the need for limitation of rate of increase is generally recognised. Of late years there has been an economic conspiracy of silence, or worse, on the subject; and even enlightened writers like Professor Marshall and Professor Sidgwick either obscure the issue or deny the solution. In his latest work Professor Sidgwick makes the astonishing declaration that in the present state of civilisation he considers the increase of human life "in the world" as a good and not as an evil.[1] Since he at the same time admits that some day it is likely to be necessary to restrict population, he is committed, in the very act of encouraging increase, to the view that such increase tends to become a danger. That is to say, the position of civilisation is going to get worse and not better. Yet it lies on the face of the case that such worsenment can only appear under the guise of poverty and struggle for subsistence, phenomena which are glaringly apparent in the present state of civilisation, in which Professor Sidgwick thinks all increase of population is a good.

The fact is, it appears, that Professor Sidgwick makes the ordinary empiric's confusion between gross and net increase of population. He has not realised that a restriction of gross increase of population is compatible with a continued net increase of population, in respect that of the fewer children born a larger proportion can subsist. This lesson is of the very essence of the Neo-Malthusian doctrine.[2] But even if we consider the demand for a continued net increase of population, it is plain that it rests, even when put forward by a thinker like Professor Sidgwick, on no scientific estimate of good and evil. The first condition of such an estimate is a discrimination of the various lots into which human beings are born; but Mr. Sidgwick makes no discrimination whatever. Thus can sociology still be written.

IV.

But, even assuming a recognition of the law of population, there is still our problem of consumption, which the advocates of State pensions leave wholly out of account, framing as they do a sociological proposition without a study of the economic contingencies. With or without limitation of families, we saw, the principle of parsimony would lead to economic overproduction of easily produced necessaries, and the principle of parsimony, unless discredited or effectively thwarted, would continue to operate widely even alongside of a State pension system. Even if pensions be withheld from all who

[1] *Elements of Politics*, p. 304.
[2] See the author's pamphlet on *Over-Population* (Forder, Stonecutter Street).

have investments—and that is a point that must clearly be considered when we come to details—those who do the bulk of the present " saving " would continue to do so, and the kind of consumption possible to the pensioners, at the rates of pension thus far proposed, would certainly not permit of any great raising of the standard of consumption. So the industrial problem would still subsist, and we should soon be led up to the question of doles to the unemployed.

Now, no State could enter on a system of doles to the unemployed without rapid demoralisation and no less rapid impoverishment. The causes which created the lack of employment would subsist under a system of doles. Rapidly perishable forms of wealth would be freely produced at demand, and still there would be idleness, unless among the classes with most purchasing power there arose an increasing demand for the higher and less easily producible forms of wealth—for artistic products, in short. And what present likelihood is there of these classes thus raising their standards of consumption while they have no other means than saving and investment of securing for their old age the measure of income that investments might yield them? Plainly, the establishment of pensions for the workers is only one side of the process of reconstruction; and we must try to ascertain how the rest of the process should go.

First, we come back to the old principle, otherwise arrived at,[1] of a graduated income tax as a necessary means towards the payment of the National Debt. Here we have at once a means of rectifying plain political injustice and of checking under-consumption, provided, that is, that we specially tax idle income from investments. This is the course prescribed by political equity apart from economic sociology, and it entirely consists also with the economico-sociological prescription. But the taxation of incomes will at first necessarily tend to make those taxed spend less on consumption; and here, as before, we are faced by the need for special employment of labour. Such employment can only be supplied by public action; and I can suggest no better lines of such action than genuine public works, such as corporate cultivation of waste or withheld lands; the scientific utilisation of sewage and consequent salvation of rivers; the proper tunnelling of streets for sewage and lighting purposes, and the rebuilding of the

[1] See *Modern Humanists*, Epilogue.

worst parts of our cities, including in that the erection of good dwellings and noble public buildings.

Thus far we shall provide for the employment of unskilled and partially skilled labour generally; and if at the same time we establish a pension system for the workers, stipulating that there shall be proportional deduction where the pensioner has other sources of income, we may take it that common consumption will be fairly safe. All this, be it observed, comes far short of the universal transformation demanded by the neck-or-nothing Socialists, who propose the nationalisation of all means of production. That is a transformation which human nature cannot accomplish save by a prolonged course of gradual change: what we are here proposing is a set of social departures plainly required by the industrial and moral situation, and as plainly practicable. The reform of taxation, of course, goes upon a principle which equally prescribes the nationalisation, as is found feasible, of monopoly-sources of profit, such as railways, gas-works, waterworks, and banks. Merely to nationalise these, and to secure the national utilisation of the land, will be hard enough work for some generations to come; and it is needless here to anticipate the problems of further nationalisation of sources of profit which will arise when these have been grappled with. Suffice it to say that by all these means the sources of idle living may be gradually restricted without any harm to industry generally, and even without any violent hardship to the idle classes, which will be gradually eliminated. The practice of saving will be continued by the non-pensioned classes on their own behalf; but when enlightened consumption is more and more generally recognised as the right economic and social course, there will be a decline in the desire to endow idle families—provided only that there are careers open which shall yield young people lair chances of living in return for services rendered to society.

And here arises the question whether an extending pension system (for I will assume that as the community is found to prosper on the new lines, pensions will be raised to the workers generally) may alone be trusted to secure such raising of the standards of consumption as shall elicit in an ever-increasing degree the higher kinds of service, and not merely increase the run upon the lower. We have seen that machinery will always easily overtake the demand for most necessaries (though the limits of the food and fuel supplies, not to speak of room for houses and gardens, must always be less elastic); and that the true cure for over-supply of labour is primarily restraint of population, and secondarily demand for artistic products. Given the recognition of these principles, will the pension system, with its security of life, suffice to make them work? Will the classes employed and pensioned by the State be safe to provide as well among them for the maintenance of literature, art, and science, as society does at present? I would answer that, without any such premature extension of public employment as would be a social danger comparable to the present moral evil of a large class of idle rich, the public service will necessarily tend to provide more and more for the fostering of the higher standards of consumption alongside of the raising of the standards of the workers. The education system must clearly be improved, till the higher grades are relatively as fully available in the public interest as the lower. And as the official pension system is already in force in the public service generally, and is bound to be extended rather than dropped, it will come about that the great class engaged in all kinds of teaching, like the other classes of public servants (likely ere long to include, as before noted, the employees on the railway and gas and water systems), will be in a good position to consume the higher forms of literary and artistic service, leaving the supply of these services (as apart from public teaching) to the free operation of the present supply-forces. In this, as in commercial matters, there need be no fear of lack of supply, if there is demand. And on the lines specified, demand will, I think, be forthcoming. Indeed, it is safe to say that on such lines of evolution, demand for the higher intellectual services will be relatively much larger than it is at present. It is one of the darkest features of the present system that the ideals or standards of consumption on the intellectual side rise so slowly, nay, even seem at points to sink relatively to the material possibilities. So far from there being, as Cairnes implied, a danger that the more a State is socialised the greater will be the risk of a decline of the arts and sciences, it is inconceivable that any State more socialised than ours should in future provide worse for the advancement of these than we are doing at present.[1]

[1] The prospects of literature under a more socialised system have, I think, been even under-estimated from a professedly socialist point of view, while those of art

Throughout all this argument, be it remembered, there is assumed the general practice of restraint of births. Needless to say, this must hold good for the more cultured as well as for the less; and this restraint alone will serve to improve the situation for the "upper" (there will still in a sense be upper and lower, or more and less cultured) as well as for the "lower" classes. At present the pressure of the competitive saving system is much intensified by the high rate of increase among the middle-classes, for fathers naturally want to provide for their daughters, and to start their sons in life with "capital." When the English middle-classes learn the lesson of rationalism in life, the ideal of endowed idleness will be the more easily superseded because the opportunities of worthy and refined employment will be proportionally much greater as the number of helpless middle-class scions of both sexes relatively falls off. Thus in time may be attained the complete euthanasia or elimination of that grave social evil, the idle class; the community safeguarding otherwise, step by step, all the compensations which the existence of that class has hitherto involved. Of course the complete elimination will mean the socialisation of all the present sources of interest on invested money-credit.

V.

But already we have gone, for scientific purposes, quite far enough in anticipation of future possibilities; and our exposition must end on the strictly practical plane of present day economics. The practical doctrine of this second part of our inquiry, over and above restraint of population, is summed up in (1) reform of taxation to the primary end of paying off the National Debt; (2) public works, to employ the labour that tends to be thrown idle as a result of the liquidation of the Debt; (3) a national system of pensions. The last point to be considered is the method of the pension system in the light of the economic principles before established.

It speedily appears that the old idea of a National Insurance Fund is out of the question. Even apart from any perception of the general Fallacy of Saving, it is widely admitted that such a fund would be unworkable. It is hard enough for private Insurance Companies to go

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and science have not been clearly enough set forth. See the articles on "Art and Literature under Socialism" in the *New Review* for January, 1891, by Messrs. Morris & Salt.

on investing their funds profitably, without the Government attempting to compete with them as an investor on a gigantic scale. But further, it is being widely recognised that the collection of premiums, or specific payments towards pensions, would be an enormously difficult matter; and already, alongside of the schemes which specify such charges and payments, there are others which frankly propose to make a national pension charge without exacting payments from individual workers. Such are the proposals of Mr. R. P. Hardy[1] and Dr. Hunter.[2]

Here, however, there is a risk of such misconception as is set up by the phrase "free education." Indeed, there being a specific education-rate, the risk of misconception is greater. At the present moment, the working-classes pay, relatively to their mere money income, a very large proportion of the national taxation, of which so great a mass goes to pay interest on national debt. Even if they were not thus taxed in respect of their consumption, they obviously contribute the great mass of the really useful services by which all incomes are built up; but as a matter of fact they positively pay out of their wages a large part of the national revenue. A sound system of taxation would remove much of their present burden, by making an end of the taxes on articles of food. But if a pension system can be established, it may be on many grounds expedient to impose a direct income-tax on the working as on other classes. Such a tax would, represent their specific contribution to the national burdens, and would constitute by far the best quid pro quo as against their pensions. It would be a universal tax as against a universal obligation; and it would be impossible even for empirics then to speak as if the workers drew pensions without doing anything to pay them. No doubt there would still be outcry on the part of the monied classes. So deeply rooted is the notion that labour subsists chiefly by the bounty of capitalists, that in the recent case of the Scotch railway strike Mr. Lang, strong in intuitive sociology, could come forward to satirise those who sympathised with the strikers, as being generous at the expense of the shareholders. It did not occur to Mr. Lang that to sympathise with the shareholders was to be generous at the expense

[1] Pamphlet on *Old Age Pensions* (Knight & Co., 1891).
[2] Articles in Weekly Dispatch.

of the men, whose lives were spent in earning dividends for the shareholders. But while Mr. Lang's view will of course be popular among shareholders, we may hope that even in that class there are now many who deriving their sociology from other than belletrist sources, can see that it is industry which pays dividends, and not dividends that pay industry.

That the workers would themselves readily acquiesce in such a course seems the more likely in view of the favour with which the Bismarckian system of national insurance is regarded by them in Germany, where the workmen's contribution is exacted through the employer. That in itself seems a cumbrous and vexatious course under any circumstances, and would certainly not be easy of introduction in England. But inasmuch as the workers pay educational and other rates already, there need be little difficulty in charging them with a national rate, which it would be so clearly worth their while to pay, and which moreover ought to be a less burden than that which at present presses on them in respect of the taxes on their food and their poor "luxuries."

The great matter is that there shall be a general abandonment of the established delusion that the universal saving of sums of money-credit, as an outcome of non-consumption of the products of industry, can ever lead to all-round well-being. And therefore it is that I have stipulated for the limitation of the pension in cases where the pensioner has an income from invested savings. It must be admitted, however, that this stipulation can hardly be insisted on so long as the pension paid is only a few shillings a week, as is at present proposed. The question, therefore, need not be politically argued on this line at present. It will properly arise first in connection with those official pensions which are sufficient in themselves to sustain life in comfort. These are as yet mainly restricted to the upper grades of the public service; and to raise the principle in that direction will doubtless give much offence at the outset. But if there be any validity in the foregoing economic analysis, raised the question must be ere very long. And we may hope that the natural tendency to increase the small pensions first asked for will be a force which will necessitate the reconsideration of the received economic doctrine. Legislators will never agree to a national system of comfort-giving pensions while the theory of saving holds its ground. That theory rests, as we have seen, on unenlightened self-interest. But inasmuch as a system of comfort-giving pensions would coincide with the impulse of economically enlightened self-interest, it seems reasonable to conclude that, once established in a democratic State, it will be so developed as to undermine or override the contrary policy, which will, besides, be scientifically discredited step for step with the successful working of the rational regimen of advancing consumption.

THE END.

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