

PART I

THE ECONOMIC SIDE OF LIFE

CHAPTER I

THE ORDINARY BUSINESS OF LIFE

ECONOMICS DEFINED

The late Professor Marshall of Cambridge defined Economics as being “the study of mankind in the ordinary business of life”.¹ Described in this way it would seem as if the subject ought to present very little difficulty even to a beginner, inasmuch as it deals with something with which all people are more or less familiar. Perhaps it is the word ordinary which gives us this impression, but the simplicity is more apparent than real, for when we come to look into it more closely it soon becomes evident that the business of life is in reality a very complicated thing, so complicated in fact that even an elementary understanding of its working cannot be acquired without quite a considerable amount of investigation and study.

The word “business”, as it is generally used, implies a good deal more than mere occupation or activity: it means activity in certain very definite directions. From the economic point of view the great preoccupation of most individuals is how to obtain an income, for it is in that way alone that they can arrive at that which is the ultimate end and object of all economic activity, viz. the satisfaction of their daily wants. Hence the getting of an income and the using of it for the satisfaction of wants may be regarded at this early stage of the discussion as a very brief, yet sufficiently accurate statement of what is meant by “the ordinary business of life”.

¹ Marshall, *Principles of Economics*, Book I, Chap. 1.

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INCOME AND SERVICE

Income is obtained as a return for economic service rendered and economic service takes a variety of forms: it may be personal service, or it may be the service of property. It is usual to differentiate between two kinds of personal service, viz. the service of hand and the service of brain, but this classification is not very exact or complete, for many forms of service, that of the skilled artisan for example, demand both physical and mental effort. The distinction, however, is in general sufficiently clear, and when we speak of manual workers and brain workers there is no confusion in our minds as to the type of work each is doing. Suffice it to say that the term personal service includes every kind of effort, whether of the organizer, the manager, or the inventor, of the artisan in the workshop or the clerk in the office, of doctors, lawyers, schoolmasters, and other professional men, of all who contribute to the supply of what we consume, or minister to our comfort, convenience, amusement, or happiness.

The services of property are perhaps not quite so obvious, but they play a necessary part in the economic effort and consequently they receive in the form of income a share of the wealth produced. For example, a person may own land, which he does not wish to cultivate himself and he therefore lets it to a farmer, who pays him rent for it. The farmer may need more stock, more implements, more fertilizers than his own capital resources can provide. He therefore borrows, let us say from the Bank, the additional capital he needs and pays interest on it. Those who supply him with land and capital are rendering him services for which he pays out a portion of the product of the farm. Rent therefore in the one case and interest in the other may be considered as forms of income, derived from the services of these two kinds of property, land and capital.

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The relation between Income and Service may be regarded as the mainspring of our economic life, for economic life is in essence the exchange, or rather the interchange, of service, and, since income is the return for economic service while income in its turn brings the satisfaction of our wants, it is clear that income and service are inextricably bound up together. In this way we all become economically interdependent, a point of view which will be dealt with more fully later on.

Income can be regarded from three points of view: that of the individual, that of the industrial group of which he is a member, and that of the community to which he belongs. This last may be termed the National Income, for it is not only the sum total of the economic services rendered by the people of a country during a given period, for example a year, or in other words what the nation has produced during that period, but it is also the sum total of the individual incomes of all the people of the country. Some incomes it would be readily understood must not be reckoned in this total, for they are mere transfers of income from one person to another without the rendering of economic service in exchange. The allowance which a father makes to his son is a good example of this, for the spending power of the one is diminished by what is added to the spending power of the other. Income, then, may be considered as equivalent to Spending Power.

If the individual citizen is a member of an industrial group his or her income is a part of the income of that group and varies with the nature and amount of the service rendered. Services are not all alike and incomes also may differ widely from one another. This gives rise to the most difficult of all economic problems, the problem of distribution, as it is called. Many have taken part in the productive act: what is to be the particular share of each? This question may be answered very shortly as follows: "According to the valuation which society puts upon each particular form of service". If society, that

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is people in general, desires something very much and it is very scarce or otherwise very difficult to obtain, a higher price will be paid for it than would be paid for a thing the desire for which is less strong or the supply of it more easily come by. What is true of commodities is true also of services, and this provides an explanation why the income of a prima donna is higher than that of a member of the chorus, or the income of the business organizer higher than that of one of the clerks in the office.

Some people find it difficult to understand that this inequality in individual incomes is not a purely arbitrary thing. They fail to see in it the result of the interaction of those economic forces usually spoken of as Supply and Demand. Salaries and wages are in general determined by circumstances over which the employer has very little control. There is besides no fixed standard of measurement which can be applied to all the different types of service such as there is for length or weight. Time, intensity of effort, skill have all something to do with the measurement, but there are other factors as well, the two chief of which are the ability which the product has to satisfy the public want and the ease or difficulty with which persons can be found with the necessary qualifications for the duties required of them.

Under modern conditions income is measured in terms of money and takes the form of money. There is some difference in meaning, however, between these two uses of the term money. In the first case by money is meant the standard unit of currency in the country, that is pounds sterling in Great Britain, dollars in the U.S.A., marks in Germany, francs in France. In the second case the term money is used to cover the accepted medium of exchange. It may be coin or bank-notes, both of which are money in the technical sense, but it may also be that which gives one the right to receive money, for example, a cheque or a bill of exchange; in fact, money in this wider sense may be said to include everything that has

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general purchasing power, everything through which exchanges can be effected, by means of which wants both material and immaterial can be satisfied. Thus the getting of a money income is not an end in itself, it is merely the means to an end, and income is valued only for what it will bring. How much a given income will bring depends on the general level of prices, and on these two factors—money income and price level—depends what is called the Standard of Living.

EARNING AND SPENDING

The getting of an income, and the using of it for the satisfaction of wants, involves two sets of economic or, to use a less technical term, business relations: those which are connected on the one hand with earning the income, and on the other with the spending of it. With many persons, especially those whose incomes are small, fairly regular, and fixed in amount, both of these relations tend to become mere matters of habit and routine. As regards the earning, one day is for them very much the same as another: a fixed number of hours' work each day; the same type of work, perhaps, and a more or less fixed amount of it to be got through in the day, and always in the same office or workshop. In return for this economic effort income is received at regular intervals in the form of wages or salary, and these, too, may vary very little from month to month and from year to year. As regards the spending, the income is applied to the maintenance of a standard of life which for some time perhaps has become so established that everything connected with it has become almost automatic, almost mechanical. One portion of the income week by week, or month by month, is assigned to rent, another to general household expenses, a third to clothing, a fourth perhaps to school fees, and, according as the income permits of it, to some provision for entertainment, holidays, a motor car, doctors' bills, etc. Thrift, too, may enter into the calculations of the more prudent, or the more

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ambitious—and a sum, larger or smaller as the case may be, is set aside regularly by way of savings. By some this will be regarded as a provision for the rainy day, or for old age; by others as a means of getting on and of becoming more independent; of raising the standard of living and of improving the economic position generally.

THE WIDER VIEW

With many, no doubt, owing to narrowness of circumstances and outlook, such a condition of things as has just been described, the monotony of which is only broken by occasional periods of sickness or unemployment or perhaps changes in rates of wages or salaries, has come to be regarded as the ordinary business of life. Such people are in the main either ignorant of or indifferent to that wider economic life, which is the concern of the community as a whole, and which is often beyond their very limited horizon. The daily work and what it will bring is to them not unnaturally the all-important matter. But without losing sight of the significance to each individual of his or her immediate and personal interest, we have to remember that all are affected by general business conditions and, consequently, when we are dealing with the business of life we must take into consideration the general aspects of that economic activity which is going on in the world outside us. Our subject embraces something even more than the relations between employers and employed on the one hand, and of buyers and sellers on the other, more also than negotiations as to the terms of payment for services rendered, and negotiations as to the price of goods offered for sale. Behind these apparently simple forms of economic relationship—though these are not by any means so simple as they appear—there lies something far more complicated and difficult to understand, something of which, owing to the fact perhaps that our personal contact with it is so much on the surface, we may even fail to realize the exist-

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ence. This is business in the larger sense of the term : business as it is understood, not in the household but in the great city : business from the point of view of that somewhat indefinite body, the business world.

ECONOMIC LIFE

The business world, however, is apt to be more concerned with the daily operations of business life and with those actions of individuals or governments which tend to assist or to hamper its smooth working than with the principles which underlie the economic life of the community as a whole or of the world in general. But some clear understanding of economic life and of the forces at work in connection with it is absolutely essential to any intelligent grasp of business problems and of the working of business institutions, and hence the first part of this book is in the main devoted to a consideration of this subject.

In the first place we must guard against taking too narrow a view of this economic life, that is to say, we must not think of it merely as something which affects ourselves only. Nor must we take too short a view and concentrate on the immediate results of any particular course of action without due regard to what may happen in the future. Moreover, it is necessary at all times to bear in mind how closely bound up together, economically speaking, we all are. There is no individual who does not play some part in the economic life of the community of which he or she is a member and who is not affected therefore in greater or lesser degree by the actions of others.

In the everyday economic life we seem to be up against a continual conflict of interests, each individual wanting to get as much as possible in the way of income for the services he renders and to give as little as possible out of that income for the services which others render to him. But in our anxiety to buy as cheaply as possible we are apt to lose sight of the

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fact that the price of the article has to remunerate quite a number of services of different kinds, and that if this price is less than what will afford a reasonable return for all these services, some at any rate of those who have rendered them will suffer a loss which will ultimately react on the buyers themselves.

At a time when the general price level is low money goes much farther in satisfying the household needs than it does at a time when the level is high. At first sight this would seem to be a very great advantage, and to those with a fixed income there is no doubt that it would in reality be so. But these are only the comparatively few; the majority of incomes are dependent upon general prosperity and this in its turn on business being conducted with a margin of profit. The low prices appear to be good for the housewife, though they may inflict injury on the breadwinner whose income may have fallen in consequence of them, and who may even have become temporarily unemployed. Taking society as a whole, housewives and breadwinners, consumers and producers, have not really two separate interests, they are merely two aspects of the economic life of the household. The housewife can only spend what the breadwinner has earned, and what the one may have gained as a consumer the other may have more than lost as a producer.

The great English statesman, William Huskisson, when speaking in the House of Commons in 1815, a few months before the close of the Napoleonic Wars, uttered these very striking words:

Nothing can be more fallacious than the notion that cheapness in the price of provisions is always of benefit. Cheapness without the demand for labour is a symptom of distress; cheapness always prevails where enterprise is at a stand. The great object to be attained is steady prices and an active demand for labour.

The same thing has recently been said, though in other words, by some of the great financial experts of the day, and

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it is not infrequently asserted, and the opinion is supported by some of the highest authorities, that the low price level of commodities is the real cause of the present¹ world-wide depression. Prices have fallen below a remunerative figure, demand for labour has decreased, and incomes are smaller all round. There is, consequently, less demand for commodities and this causes prices to fall still further. Thus we get into a vicious circle, poverty creating still greater poverty.

Every economic change, although it may appear only to affect the lives of a very few, has in reality a far wider effect than can be seen or traced. Some piece of labour-saving machinery, for example, is introduced with the immediate consequence no doubt that certain persons lose their employment and that others gain by the cheapening of the process or by a reduction in the price of the particular article. But in the long run the effect may prove to be a much greater demand for the product, and ultimately some increase in the total number of persons employed in its manufacture as well as an increase in the general demand for other kinds of labour owing to the increase in purchasing power of those immediately affected.

An economic change is like the throwing of a stone into a pond. The immediate result is a splash which directs attention to a particular spot, but the disturbance does not end there: the ripples on the water will widen and widen until they reach the extreme circumference of the pond, and it is seen that all the water in some degree has been affected by the casting of that stone.

THE ECONOMIC DAY

With the great majority of people the economic day begins with "going to business", for nowadays the daily bread is seldom earned in the home, but rather in the factory, the workshop, or the office. Those working in large cities must

¹ Written in 1933.

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often live at a distance from their place of business, and hence in the early morning one may see every weekday streams of people, of all ages and all ranks of society, pouring into one of the great industrial or commercial centres, having come by train or tram, by bus or car as the case may be. It is the beginning of the economic day, the first and necessary stage of each day's activity.

The hurrying crowd consists of all sorts and conditions of men and women. Some are employers of labour, some are employed, some are connected with large businesses and some with small, some are occupying positions of great responsibility and some have merely to follow out the instructions of those above them. However different their circumstances may be, they are all animated by the same motive, they have all a common aim, viz. that which has already been set out as the object of all economic activity, the satisfaction of the daily wants. Each is occupied doubtless with his or her own personal interests, occupations and circumstances, and such thought as is given to the day's work which is lying ahead is probably devoted to the individual part which he or she has to play rather than to the problems of business in general. With most of them, doubtless, the horizon is to a large extent limited by the home from which they have come and the particular business or occupation to which they are going. How many of them realize that the interests of all the various human elements in that thronging mass of people are in some way or other closely interrelated, or that all are, to some extent, dependent on one another; that all are taking part in a great combination of effort on the collective result of which depends the economic welfare of the society to which they belong? Yet this is what it really amounts to, for each is contributing something to that vast sum total of economic services which provides food, clothing and shelter, necessities, comforts and luxuries, for the community as a whole.