

of raising freight-rates, while in the case of the railway companies it is proposed that legislation should be passed which will admit of their more readily raising freight-rates above the level fixed by the Act of 1894.

But before discussing this argument the same vicious circle may be traced starting from any other point on its circumference—as, for example, when a monopoly raises prices—a case more likely to become important in the United States of America than in this country. Under the protection of a tariff a number of the trusts are formed which raise the price of their products above the level in the open market; the rise of prices raises the cost of living, produces unrest among the working-classes, and eventually a rise of wages; the increase in the wages-bill cuts into the anticipated profits of the trusts, which on the score of increased costs of production attempt to raise prices still further, and probably demand a higher tariff. If this is secured the whole process begins again, and, just as when the rise started in wages, seems to involve an indefinite upward movement of prices.

The discussion of monetary theory in Chapter IV will, however, have shown that such a continuous upward movement could not occur without a steady expansion of the circulating-medium, and the demand will probably be—if the experience of the United States may be taken as a guide—for both gold and credit money. If gold were not readily forthcoming, the country concerned would make a heavy call on the world's gold resources, banking reserves in all countries would run low, and prices in the open market tend to fall. In the country with the tariff the price-level might conceivably be established at, say, 20 per cent. above the level in the world's market if the tariff were a 20-per-cent. one; but in the country without the tariff the level could not long remain above that of the open market. Thus the conception that strikes, tariffs, or trusts can produce an indefinite movement of prices is seen to be limited by the elasticity of the circulating-medium, and although the train of events may happen, as suggested, for a time, the strain to the credit and banking system will produce a reaction which will eventually establish a lower level of prices.

But will everybody be no better off than before as a result of such changes? A moment's thought will show that the argument assumes that the total-distribution of real wealth between employers and employed, and between monopolists and the general public, is fixed by economic laws which do not permit any change in the relative income of those classes. If this was so, it is indeed true that no one would be ultimately better off for a rise in wages or profits, for the change of the income of one class would spread itself all round the circle, while the general level would remain high or be reduced to its former position, according to whether the period happened to be one in which the world's gold-supply was increasing or not. But in practice this assumption is very rarely proved, and it is certainly never proved except over a very long period of time. A section of the community which secures a bigger income is usually able to do so at the expense of some other class.

An industry would, in fact, be securing for itself a larger share of national income at the expense of various other income-receivers. If all the claimants to a share of the national dividend were equally able to make their claim effective no one would be able in this way to increase his share measured in commodities and services; but any rise of wages or profit would react in the way suggested above on the general level of prices. As distribution is at present determined, the actual effects of a rise in wages depends on the "squeezability" of the employers profits on the one hand, and on the "squeezability" of the general public on the other. Recent advances in wages have probably been secured for the most part at the expense of those who have hitherto profited by the rise in prices, and must be regarded as a consequence rather than a cause of rising prices.

6. The total membership of registered unions on the 31st December, 1910, was—Industrial, 57,091; employers, 4,262—in all about 6 per cent. of the population. Adding those dependent upon members of unions, after allowing for the large proportion of single male and female workers, 10 per cent. would be a liberal estimate of the total population directly concerned in securing arbitration awards, so that 90 per cent. of the people are subject to such awards without representation. This appears to be a serious weakness, and calls for adjustment, as there is always the danger of mutual agreements being entered into between the two parties concerned, imposing unjust increases in the cost of living, not only to the 90 per cent. of the people who are not represented, but to all members of unions who are not parties to a particular dispute. (See Recommendation 5 (d) Chapter XIII to deal with this difficulty.*)

Arbitration
Court
awards.

It is a common opinion that the increased cost of living is due to increased wages. In many instances where the Commission investigated the effect of increases of wages it was found that the employers increased the prices to the public far beyond the increase granted.

Wages and
prices.

* See reservation by Mr. Tregear, p. xvi.