

## Chapter VIII.

### Of The Law Of The Increase Of Capital.

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#### § 1. Means for Saving in the Surplus above Necessaries.

The requisites of production being labor, capital, and land, it has been seen from the preceding chapter that the impediments to the increase of production do not arise from the first of these elements. But production has other requisites, and, of these, the one which we shall next consider is Capital. There can not be more people in any country, or in the world, than can be supported from the produce of past labor until that of present labor comes in [although it is not to be supposed that capital consists wholly of food]. We have next, therefore, to inquire into the conditions of the increase of capital: the causes by which the rapidity of its increase is determined, and the necessary limitations of that increase.

Since all capital is the product of saving, that is, of abstinence from present consumption for the sake of a future good, the increase of capital must depend upon two things--the amount of the fund from which saving can be made, and the strength of the dispositions which prompt to it.

(1.) The fund from which saving can be made is the surplus of the produce of labor, after supplying the necessaries of life to all concerned in the production (including those employed in replacing the materials, and keeping the fixed capital in repair). More than this surplus can not be saved under any circumstances. As much as this, though it never is saved, always might be. This surplus is the fund from which the enjoyments, as distinguished from the necessaries of the producers, are provided; it is the fund from which all are subsisted who are not themselves engaged in production, and from which all additions are made to capital. The capital of the employer forms the revenue of the laborers, and, if this exceeds the necessaries of life, it gives them a surplus which they may either expend in enjoyments or save.

It is evident that the whole unproductive consumption of the laborer can be saved. When it is considered how enormous a sum is spent by the working-classes in drink alone (and also in the great reserves of the Trades-Unions collected for purposes of strikes), it is indisputable that the laborers have the margin from which savings can be made, and by which they themselves may become capitalists. The great accumulations in the savings-banks by small depositors in the United States also show somewhat how much is actually saved. In 1882-1883 there were 2,876,438 persons who had deposited in the savings-banks of the United States \$1,024,856,787, with an average to each depositor of \$356.29. The unproductive consumption, however, of all classes--not merely that of the working-men--is the possible fund which may be saved. That being the amount which *can* be saved, how much *will* be saved depends on the strength of the desire to save.

The greater the produce of labor after supporting the laborers, the more there is which *can* be saved. The same thing also partly contributes to determine how much *will* be saved. A part of the motive to saving consists in the prospect of deriving an income from savings; in the fact that capital, employed in production, is capable of not only reproducing itself but yielding an increase. The greater the profit that can be made from capital, the stronger is the motive to its accumulation.

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#### § 2. Motive for Saving in the Surplus above Necessaries.

But the disposition to save does not wholly depend on the external inducement to it; on the amount of profit to be made from savings. With the same pecuniary inducement, the inclination is very different, in different persons, and in different communities.

(2.) All accumulation involves the sacrifice of a present, for the sake of a future good.

This is the fundamental motive underlying the effective desire of accumulation, and is far more important than any other. It is, in short, the test of civilization. In order to induce the laboring-classes to improve their condition and save capital, it is absolutely necessary to excite in them (by education or religion) a belief in a future gain greater than the present sacrifice. It is, to be sure, the whole problem of creating character, and belongs to sociology and ethics rather than to political economy.

In weighing the future against the present, the uncertainty of all things future is a leading element; and that uncertainty is of very different degrees. "All circumstances," therefore, "increasing the probability of the provision we make for futurity being enjoyed by ourselves or others, tend" justly and reasonably "to give strength to the effective desire of accumulation. Thus a healthy climate or occupation, by increasing the probability of life, has a tendency to add to this desire. When engaged in safe occupations and living in healthy countries, men are much more apt to be frugal, than in unhealthy or hazardous occupations and in climates pernicious to human life. Sailors and soldiers are prodigals. In the West Indies, New Orleans, the East Indies, the expenditure of the inhabitants is profuse. The same people, coming to reside in the healthy parts of Europe, and not getting into the vortex of extravagant fashion, live economically. War and pestilence have always waste and luxury among the other evils that follow in their train. For similar reasons, whatever gives security to the affairs of the community is favorable to the strength of this principle. In this respect the general prevalence of law and order and the prospect of the continuance of peace and tranquillity have considerable influence."(128)

It is asserted that the prevalence of homicide in certain parts of the United States has had a vital influence in retarding the material growth of those sections. The Southern States have received but a very small fraction (from ten to thirteen per cent) of foreign immigration. "A country where law and order prevail to perfection may find its material prosperity checked by a deadly and fatal climate; or, on the other hand, a people may destroy all the advantages accruing from matchless natural resources and climate by persistent disregard of life and property. A rather startling confirmation of this economic truth is afforded by the fact that homicide has been as destructive of life in the South as yellow fever. Although there have been forty thousand deaths from yellow fever since the war, the deaths from homicide, for the same period, have been even greater."(129) The influence of the old slave *régime*, and its still existing influences, in checking foreign immigration into the South can be seen by the colored chart, No. VIII, showing the relative density of foreign-born inhabitants in the several parts of the United States. The deeper color shows the greater foreign-born population.

The more perfect the security, the greater will be the effective strength of the desire of accumulation. Where property is less safe, or the vicissitudes ruinous to fortunes are more frequent and severe, fewer persons will save at all, and, of those who do, many will require the inducement of a higher rate of profit on capital to make them prefer a doubtful future to the temptation of present enjoyment.

In the circumstances, for example, of a hunting tribe, "man may be said to be necessarily improvident, and regardless of futurity, because, in this state, the future presents nothing which can be with certainty either foreseen or governed.... Besides a want of the motives exciting to provide for the needs of futurity through means of the abilities of the present, there is a want of the habits of perception and action, leading to a constant connection in the mind of those distant points, and of the series of events serving to unite them. Even, therefore, if motives be awakened capable of producing the exertion necessary to effect this connection, there remains the task of training the mind to think and act so as to establish it."

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### § 3. Examples of Deficiency in the Strength of this Desire.

For instance: "Upon the banks of the St. Lawrence there are several little Indian villages. The cleared land is rarely, I may almost say never, cultivated, nor are any inroads made in the forest for such a purpose. The soil is, nevertheless, fertile, and, were it not, manure lies in heaps by their houses. Were every family to inclose half an acre of ground, till it, and plant it in potatoes and maize, it would yield a sufficiency to support them one half the year. They suffer, too, every now and then, extreme want, insomuch that, joined to occasional

intemperance, it is rapidly reducing their numbers. This, to us, so strange apathy proceeds not, in any great degree, from repugnance to labor; on the contrary, they apply very diligently to it when its reward is immediate. It is evidently not the necessary labor that is the obstacle to more extended culture, but the distant return from that labor. I am assured, indeed, that among some of the more remote tribes, the labor thus expended much exceeds that given by the whites. On the Indian, succeeding years are too distant to make sufficient impression; though, to obtain what labor may bring about in the course of a few months, he toils even more assiduously than the white man."

This view of things is confirmed by the experience of the Jesuits, in their interesting efforts to civilize the Indians of Paraguay. The real difficulty was the improvidence of the people; their inability to think for the future; and the necessity accordingly of the most unremitting and minute superintendence on the part of their instructors. "Thus at first, if these gave up to them the care of the oxen with which they plowed, their indolent thoughtlessness would probably leave them at evening still yoked to the implement. Worse than this, instances occurred where they cut them up for supper, thinking, when reprehended, that they sufficiently excused themselves by saying they were hungry."

As an example intermediate, in the strength of the effective desire of accumulation, between the state of things thus depicted and that of modern Europe, the case of the Chinese deserves attention. "Durability is one of the chief qualities, marking a high degree of the effective desire of accumulation. The testimony of travelers ascribes to the instruments formed by the Chinese a very inferior durability to similar instruments constructed by Europeans. The houses, we are told, unless of the higher ranks, are in general of unburnt bricks, of clay, or of hurdles plastered with earth; the roofs, of reeds fastened to laths. A greater degree of strength in the effective desire of accumulation would cause them to be constructed of materials requiring a greater present expenditure, but being far more durable. From the same cause, much land, that in other countries would be cultivated, lies waste. All travelers take notice of large tracts of lands, chiefly swamps, which continue in a state of nature. To bring a swamp into tillage is generally a process to complete which requires several years. It must be previously drained, the surface long exposed to the sun, and many operations performed, before it can be made capable of bearing a crop. Though yielding, probably, a very considerable return for the labor bestowed on it, that return is not made until a long time has elapsed. The cultivation of such land implies a greater strength of the effective desire of accumulation than exists in the empire. The amount of self-denial would seem to be small. It is their great deficiency in forethought and frugality in this respect which is the cause of the scarcities and famines that frequently occur."

That it is defect of providence, not defect of industry, that limits production among the Chinese, is still more obvious than in the case of the semi-agriculturized Indians. "Where the returns are quick, where the instruments formed require but little time to bring the events for which they were formed to an issue," it is well known that "the great progress which has been made in the knowledge of the arts suited to the nature of the country and the wants of its inhabitants" makes industry energetic and effective. "What marks the readiness with which labor is forced to form the most difficult materials into instruments, where these instruments soon bring to an issue the events for which they are formed, is the frequent occurrence, on many of their lakes and rivers, of structures resembling the floating gardens of the Peruvians, rafts covered with vegetable soil and cultivated. Labor in this way draws from the materials on which it acts very speedy returns. Nothing can exceed the luxuriance of vegetation when the quickening powers of a genial sun are ministered to by a rich soil and abundant moisture. It is otherwise, as we have seen, in cases where the return, though copious, is distant. European travelers are surprised at meeting these little floating farms by the side of swamps which only require draining to render them tillable."

When a country has carried production as far as in the existing state of knowledge it can be carried with an amount of return corresponding to the average strength of the effective desire of accumulation in that country, it has reached what is called the stationary state; the state in which no further addition will be made to capital, unless there takes place either some improvement in the arts of production, or an increase in the strength of the desire to accumulate. In the stationary state, though capital does not on the whole increase, some persons

grow richer and others poorer. Those whose degree of providence is below the usual standard become impoverished, their capital perishes, and makes room for the savings of those whose effective desire of accumulation exceeds the average. These become the natural purchasers of the lands, manufactories, and other instruments of production owned by their less provident countrymen.

In China, if that country has really attained, as it is supposed to have done, the stationary state, accumulation has stopped when the returns to capital are still as high as is indicated by a rate of interest legally twelve per cent, and practically varying (it is said) between eighteen and thirty-six. It is to be presumed, therefore, that no greater amount of capital than the country already possesses can find employment at this high rate of profit, and that any lower rate does not hold out to a Chinese sufficient temptation to induce him to abstain from present enjoyment. What a contrast with Holland, where, during the most flourishing period of its history, the government was able habitually to borrow at two per cent, and private individuals, on good security, at three!

#### § 4. Examples of Excess of this Desire.

In [the United States and] the more prosperous countries of Europe, there are to be found abundance of prodigals: still, in a very numerous portion of the community, the professional, manufacturing, and trading classes, being those who, generally speaking, unite more of the means with more of the motives for saving than any other class, the spirit of accumulation is so strong that the signs of rapidly increasing wealth meet every eye: and the great amount of capital seeking investment excites astonishment, whenever peculiar circumstances turning much of it into some one channel, such as railway construction or foreign speculative adventure, bring the largeness of the total amount into evidence.

There are many circumstances which, in England, give a peculiar force to the accumulating propensity. The long exemption of the country from the ravages of war and the far earlier period than elsewhere at which property was secure from military violence or arbitrary spoliation have produced a long-standing and hereditary confidence in the safety of funds when trusted out of the owner's hands, which in most other countries is of much more recent origin, and less firmly established.

The growth of deposit-banking in Great Britain, therefore, advances with enormous strides, while in Continental countries it makes very little headway. The disturbed condition of the country in France, owing to wars, leads the thrifty to hoard instead of depositing their savings. But in the United States the same growth is seen as among the English. The net deposits of the national banks of the United States in 1871 were \$636,000,000, but in 1883 they had increased more than 83 per cent to \$1,168,000,000. Deposit accounts are the rule even with small tradesmen; and the savings-banks of Massachusetts alone show deposits in 1882-1883 of \$241,311,362, and those of New York of \$412,147,213. The United States also escapes from the heavy taxation which in Europe is imposed to maintain an extravagant army and navy chest. The effect of institutions, moreover, in stimulating the growth of material prosperity is far more true of the United States than of England, for the barriers raised against the movement from lower to higher social classes in the latter country are non-existent here, and consequently there is more stimulus toward acquiring the means of bettering a man's social condition.

The geographical causes which have made industry rather than war the natural source of power and importance to Great Britain [and the United States] have turned an unusual proportion of the most enterprising and energetic characters into the direction of manufactures and commerce; into supplying their wants and gratifying their ambition by producing and saving, rather than by appropriating what has been produced and saved. Much also depended on the better political institutions of this country, which, by the scope they have allowed to individual freedom of action, have encouraged personal activity and self-reliance, while, by the liberty they confer of association and combination, they facilitate industrial enterprise on a large scale. The same institutions, in another of their aspects, give a most direct and potent stimulus to the desire of acquiring wealth. The earlier decline of feudalism [in England] having removed or much weakened invidious distinctions between the originally trading classes and those who had been accustomed to despise them, and a

polity having grown up which made wealth the real source of political influence, its acquisition was invested with a factitious value independent of its intrinsic utility. And, inasmuch as to be rich without industry has always hitherto constituted a step in the social scale above those who are rich by means of industry, it becomes the object of ambition to save not merely as much as will afford a large income while in business, but enough to retire from business and live in affluence on realized gains.

In [the United States,] England, and Holland, then, for a long time past, and now in most other countries in Europe, the second requisite of increased production, increase of capital, shows no tendency to become deficient. So far as that element is concerned, production is susceptible of an increase without any assignable bounds. The limitation to production, not consisting in any necessary limit to the increase of the other two elements, labor and capital, must turn upon the properties of the only element which is inherently, and in itself, limited in quantity. It must depend on the properties of land.