AN ENQUIRY INTO SOME OF THE CAUSES OF FLUCTUATIONS IN TRADE: A LECTURE

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CHARLES GAIRDNER

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OF

FLUCTUATIONS IN TRADE.

A LECTURE

ADDRESSED TO

The Glasgow Institute of Accountants and Actuaries.

BY

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MANAGER OF THE UNION BANK OF SCOTLAND.

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AN ENQUIRY INTO SOME OF THE CAUSES

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FLUCTUATIONS IN TRADE.

GENTLEMEN,—I have had great pleasure in responding to the invitation of your council to address you here this evening. I do not know that I shall have anything to present that is new to you, but I shall at least be able to show my sympathy with the movement that has led to the series of lectures of which this is the first; and I come forward with all the more readiness because I have the liveliest sense of the great advantage I have enjoyed throughout my business career from the training and experience gained during my earlier years in the honourable profession to which you are devoted.

In seeking for a subject on which to address you I have desired if possible to find one that would be at once instructive and appropriate. In a trading community such as this it is very desirable that the principles that ultimately regulate and control the actions of individuals should be well understood, and it is to the professional classes and those who are less involved than their neighbours in the excitement of the Exchange, that one naturally looks in the first place to keep alive the study of commerce as a science, and to extend the knowledge of the principles of trade. I think, therefore, that in presenting to you some views of the causes of fluctuations in trade I shall at least be within the range of subjects that are useful, and the time also seems to be appropriate for this purpose, seeing that at the moment we are uninfluenced by any abnormal excitement. There are times when the very atmosphere seems charged with a speculative element, and it is then hardly possible to secure the calm attention that is required. To-night, I am fortunate in having an audience whose ordinary interests and occupations, as well as intellectual leanings, combine in my behalf to bespeak a favourable hearing.

The year that has just closed is the third in succession in which trade has been, to a large extent, unprofitable. In these three years we have seen in many branches of industry a heavy reduction in wages. Raw materials and manufactured goods have fallen in value. The great carrying trades of the world have been unremunerative. Freights have fallen, bringing down with them the value of shipping property and the profits of shipbuilders. Nor have railway traffics, in spite of their monopoly, increased as they were wont to do.

In Scotland our experience has been rather less unfavourable than elsewhere, and we have tided over the time with comparatively little inconvenience. Still we have been unmistakably conscious that the times have been bad; while in England great concerns in the iron districts have collapsed, extensive mercantile houses have suspended, and industrial companies engaged in the manufactures of Yorkshire and Lancashire have gone into liquidation.

In the United States the pressure has been especially felt. In September, 1873, there arose a panic in the Stock Exchange of New York which spread throughout the country, and from that time till now the people have had to endure the miseries of "Hard times." Every kind of industry has been affected.* Coal and iron works have been closed. Mills are partially at a stand. The works of new railways have been stopped, and the affairs of some of the old companies are in confusion. Vast numbers of unemployed parade the streets of the great cities, and bread riots have not been unknown. Even the tide of emigration has threatened to turn.

On the continent of Europe misfortunes similar in kind, though less in degree, have overtaken the people; and, strange though at first sight it may appear, Germany, with its two hundred millions of French gold, has been the greatest sufferer. To our own most distant colonies the pressure has extended,

* See *Economist* of 30th December, 1876, page 1510.

and a heavy fall in the value of wool for a time brought trouble on the squatter.

Why is this so? How is it that trade has simultaneously and universally shrunk in extent? This is the question that I propose to examine to-night, and I must ask your patience while I do so, for although the enquiry ought to be interesting and instructive, I cannot promise to make it amusing.

The question has but little in common with the ordinary causes of individual failures. These occur to a large extent from inexperience, imprudence, from the haste to be rich, from personal extravagance, from want of moral courage to face the beginnings of misfortunes, and sometimes from downright dishonesty. "To err is human," and as long as it is so, our mercantile annals will be chequered with individual disasters. But these effects are local and personal, and do not serve to account for the great wave of depression we have lately experienced.

Neither do we find the explanation in any great natural cause. The extensive failure of the harvests of the world would be a phenomenon of the most formidable kind, certain to shake to its foundations the machinery of trade. But nothing of the kind has happened. Seed time and harvest have followed one another as heretofore; and the earth having yielded her fruits, we find no answer in that direction.

But, it will be said, the whole question is one of

Supply and Demand. The demand for commodities is always uncertain; it has for the present fallen off; when it revives trade will improve again. This answer satisfies the superficial observer, and he is content to inquire no further. But is it true? *Does* demand, in point of fact, regulate supply? I apprehend not. The ragged beggar in the street has a demand, and a very urgent one too, for food and clothing: but he finds that it has but little effect on the question of supply. Let him have a shilling in his pocket and the case is altered. Then we see that demand, to be effective, must be supported by capital,—and all that demand does is to guide the capital into a particular channel.

These thoughts do not, however, appear to take us far in the study of our question, and it will be necessary to approach the subject in a different way. This I shall do by setting out two or three general propositions which it is important you should understand and whose application to our subject you will see by-and-bye. They are familiar enough to those who have made a study of political economy, but may not be so to all of you. It would be well if they were more generally kept in view in practical life.

As the principles I am about to lay down may be found by some of you a little abstruse, it may assist you in following them if I state in advance that the particular causes of fluctuations in trade, the nature of whose action I intend to examine, are, 1st, War;

2nd, Loans to insolvent and improvident states; 3rd, The too rapid conversion of circulating into fixed capital. I shall also have some observations to make upon strikes.

In order, then, to your understanding the kind of influence exercised by these disturbing forces on trade generally, and in particular on wages, which naturally form a prominent point in our question, I have, in the first place, to remind you that all wages come from capital. If there were no capital, that is to say, if there were no savings from past labour, there would be no wages, for there would be nothing with which to remunerate labour. Destroy the capital and you destroy the wage-fund. Increase the capital and you increase the fund available for wages.

There are thus two complementary forces—labour in search of capital, and capital in search of labour (or, as it is sometimes put, of population), and each essential to the other. On the ratio between them ultimately depends the remuneration of labour. If there be a preponderance of capital seeking employment, labour is better paid. If a preponderance of labour seeking employment, labour is worse paid. You thus see that the labourer has a direct interest in the increase of capital, for, other things remaining the same, the increase of capital leads to the increase of wages.

How, then, is capital to be increased? There are two constituent elements in capital—labour and