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SOCIAL JUSTICE FIRST

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by

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Chapter One

Social Justice First

IN *The Next Five Years*, the foreword to which bears the signatures of so many distinguished men and women, it is significant that the chapter on social justice comes last in the part of the book which deals with Economic Policy. This is rather typical of the orthodox economics of today. Would not the following be a perfectly candid confession of the state of mind of the writers of this chapter? "Taking as axiomatic the main principles upon which our present economy is founded, we have explored every avenue which might lead to improvement in the efficiency of the economic mechanism. Let us, finally, take a glance at the problem of social justice. We must admit that the present inequalities in the division of wealth offend our sense of what is fair. We further realize that they constitute a danger not only to democratic government but even to the continued existence of the system itself. We must, therefore, make some suggestions for improving matters. We must confess these rather resemble a patch here and a patch there on an old garment—slightly higher wages, slightly shorter hours, a little more spent in social services.

On every hand, however, we find ourselves hemmed in by the restrictions of the existing system. We cannot recommend such a substantial rise in wages as would effect any real remedy of existing poverty because industry and commerce could not bear it. Profits would be converted into losses and the economic machine would gradually be brought to a standstill. Social services cannot be extended very much further without producing a similar result. With the best will in the world to put things right we must confess that all our suggestions, even if given immediate effect, would not go far towards solving the problem of poverty or effecting a more equitable distribution of wealth." Even if the writers were not prepared to go to such a length in confession, it must still be said that the chapter on social justice leaves the reader unconvinced and profoundly disquieted and dissatisfied. The statement in paragraph two of the chapter of the present position is so convincing, the suggested remedies are in comparison so utterly inadequate. There is something seriously wrong somewhere if one could put one's finger upon the spot. It is impossible to question either the ability or the sincerity of the signatories. Why have they effected so little towards the solution of this all important question of social justice, the more equitable distribution of wealth?

A fool will rush in where the angels have feared

to tread. The present writer has no pretensions to the qualifications of the many distinguished signatories to express an opinion upon the subject. He would like, however, to ask a few questions. Is not the position of the chapter on social justice significant? Does it not provide the key to the reasons for its failure? Why did not social justice form the subject of Chapter One? Does not social justice rank first rather than last in importance amongst the subjects to be treated? If you establish a system with a nearer approximation to the attainment of social justice will you not also get nearer to the attainment of the other aims of your economic system? It is proposed to tackle the economic problem from this point of view—social justice first. We shall then see whether other objectives will not fall into their proper place more satisfactorily than when social justice is left to the eighth and last chapter.

Let us examine a little more closely the reason why Chapter Eight is so unconvincing. Every avenue of improvement explored, before it has led any appreciable distance, is found to be blocked by the exigencies of the present economic system. It is impossible to break out in any direction without bumping into some inexorable economic law. If all these distinguished men and women could not devise some escape, one may well conclude that none exists. Are we not forced to the conclusion

that once having taken as axiomatic the principles of our economic system it is impossible to achieve social justice? It is not the lack of good will or capacity on the part of the seekers that is at fault. It is the system with which they have saddled themselves. Social justice and some of the foundations of the system are, as we hope to show later, incompatible. That is why we want the chapter on social justice first. It may then be possible to modify such principles as cannot be reconciled with our main objective, the fair and equitable distribution of wealth amongst the members of the community.

There is another reason why the equitable distribution of wealth should be put first instead of last in our endeavour to improve the economic system. If we agree that the ultimate object of any economic system is human happiness surely the removal of poverty should be one of our first aims. What is the principal cause of poverty? In his lecture upon "The Economic Implications of Planning under Socialism" delivered at Oxford University in May 1935, Sir William Beveridge quotes the phrase "We have passed from the economics of scarcity to the economics of plenty" and characterizes it as "a dangerous delusion." In his opinion man has not "solved the problem of wringing wealth from Nature and having easy abundance within his grasp." For, if he had, there would be no poor. His argument implies that the existence of poverty

is due to men's inefficiency in wringing wealth from Nature. Men have to go without because "the machines cannot help them," cannot indeed produce enough to supply their needs.

One would like, however, to ask why, if Sir William Beveridge's implication is correct, are the owners of the existing machines afraid of over-production? Why are many of them working short time? Why are there nearly two million unemployed? Why is there a superfluity of capital, the owners of which are unable or afraid to invest it in making new machines? Would it not be possible by fully employing all those who are able and willing to work, by working all the existing machines full time, and by investing the superfluous idle capital in the making of new machines, to produce a great deal more of the goods necessary to relieve the poverty of the masses than is now produced? Why is this not being done? And until it is done is it not unreasonable to ascribe poverty to our lack of technical efficiency in wringing wealth from Nature? Those who agree with the implication of the Director of the London School of Economics will not find it very easy to answer these questions.

Is not poverty the lack of purchasing power in the hands of the many who are under-supplied with the wealth they need and would consume had they but the means to obtain it? They can create no economic demand for the goods because

they cannot afford to pay for them. What has this got to do with our technical efficiency in wringing wealth from Nature? Much wealth which could be wrung from Nature is not in fact produced because there is no market for it. The fault would, therefore, appear to lie not so much in our lack of technical efficiency as in our distribution of purchasing power. We thus reach the conclusion that a more equitable distribution of purchasing power would cause a decrease in poverty. In other words a nearer approximation to social justice would mean a greater volume of human happiness.

Apart from considerations of fair play or human happiness it is submitted that for purely economic reasons social justice, the fair distribution of wealth, should be considered first. Suppose, for the sake of argument, that a better distribution of purchasing power has been achieved, what does this mean? It means greater purchasing power in the hands of the masses who need to exercise it, a greater economic demand for the goods they require, an increased market. Now it is the lack of a sufficient market which at present restricts the production of wealth. Given the market a much greater volume of wealth could and would be produced than is produced at present. Provided we could somehow arrange that the purchasing power kept on flowing into the hands of those who needed to exercise it, production would be bound to increase. The

more was produced the more would be the power to purchase and the more that power would be exercised. The trouble at present is that the power flows into the wrong hands. In other words it is mal-distribution of purchasing power which every time clogs the economic machine and compels those who control it to slow it down. Possibly this paragraph somewhat anticipates the conclusions of the present book. At this stage the only point the writer wishes to make is that from the purely economic point of view social justice, the fair distribution of wealth, should be the first consideration in any attempt to improve our economic system.

Chapter Two

The Principle of Social Justice

CAN we state any principle of social justice which, if it could be universally applied, would produce an equitable distribution of wealth? Nineteen centuries ago St. Paul enunciated a principle—"If a man will not work neither shall he eat." Today the common application of this principle is to those whom, with a greater or less measure of justice, we term unemployables. There is the implication that society would be justified in applying some measure of compulsion to this class. But would not the application of the principle to the well-to-do, who eat without the necessity of working, have a greater social significance? Let us elaborate the principle a little and state it as follows: "The enjoyment by any man of the results of the services of others should as far as possible be proportional to the value of the services he himself renders to others." There may be defects in the form in which this statement is made, but, it is submitted, its meaning as a principle of social justice is clear. It is proposed to examine the foundations of our present economic system and see how far they are at variance with this principle of

social justice. If they are, the next question is whether it is not possible to modify them in such a way as to bring them more into harmony with it and so achieve a more equitable distribution of wealth and as a result a greater measure of human happiness and prosperity.

Chapter Three

Workers' and Investors' Claims

WHEN we speak of the equitable distribution of wealth what we really mean is the equitable distribution of the power to purchase the goods men desire to have or to command the services they desire to enjoy. This power is usually exercised through the medium of money. Money is, so to speak, a claim upon the community. We talk of earning or making money. One man earns money by selling his labour or services. Another makes money by investment. Let us call the claim upon the community established by the first man a worker's claim and that established by the second an investor's claim. A great many people are both workers and investors, but there is a clear distinction between the claims they establish as workers and those they establish as investors. It is hoped to demonstrate that social justice depends upon the maintenance of a fair proportion between these two classes of claims. In other words the proportion should accord as closely as possible with the principle of social justice laid down in Chapter Two.

It must here be made quite clear what is meant by work. Every kind of human exertion for the pro-

duction of wealth or the service of mankind is included. It does not matter whether a man works with his head or his hands, whether he is a doctor, a musician, or a navvy, whether he drives a pen or a lorry, whether he manages a bank or sweeps it out. Provided he does some work towards the production of wealth or the service of his fellow men and is paid for his work he is a worker and up to the amount of his remuneration establishes a worker's claim.

Workers' and investors' claims are essentially different and there is a clear distinction between them. A worker's claim is established by his doing work or rendering service. The worker produces some wealth or renders some service desired by someone else. An investor's claim is established without his doing any work or rendering any service. The establishment of a worker's claim, therefore, implies the production of some wealth or the enjoyment of some service by someone else. The establishment of an investor's claim implies neither of these things. In the case of the investor money breeds money, it does not breed wealth. The investor increases the total of his own claims but he does not increase the total of human wealth produced or the total of services done to humanity. The investor establishes a series of new claims merely by relinquishing a claim he has established in the past. The past claim which he relinquished may

or may not have been established by his doing a piece of work or rendering a service. The new series of claims he establishes by investment do not involve his doing any work or performing any service. It is necessary to make this point perfectly clear. A man employed in a bakery does a day's work baking. He has produced a certain quantity of wealth. He is paid a day's wages. That is, he has established a worker's claim to that amount upon the community. A shareholder in the baking company draws a dividend. He has established an investor's claim to that amount, but he has produced no wealth and rendered no service.

Again, the amount of a worker's claim is limited by the laws of supply and demand. He has to sell his labour or his services in a competitive market. What he receives, the worker's claim he is able to establish, often has very little relation to the real value of the work he does or the services he renders. Once having contracted, the matter is out of his hands for the period of the contract, the limit to his claim has been fixed. He gets a single and limited reward in respect of a definite unit of work or service. He is paid once for all and has no further claim in respect of that unit. We may say, therefore, that a worker's claim is limited both in quantity and in time.

An investor's claim is quite different. What he, in fact, establishes is usually not one claim but a

series of claims. This series may, and in fact often does, continue indefinitely. The total of the claims established may, and in fact often does, ultimately exceed by many times the amount of the claims originally relinquished by the investor. An investor's claim may thus be said to be unlimited. Further, in accordance with the root principles underlying our present economic system the investor's right to continue indefinitely to establish his series of claims upon the community may be said to be imperishable.

Chapter Four

Investments

ONE may state the root principles at present governing investors' claims as follows:

- (a) that interest be paid by the borrower to the lender of money;
- (b) that this payment continue until the principal is repaid;
- (c) that the principal be repaid in full;
- (d) that the shareholders of a company own the industry or business carried on by the company;
- (e) that this ownership continue during the life of the company;
- (f) that the profits of the industry or business go to the shareholders.

We are so accustomed to these principles that at first sight they appear to us to be perfectly just and natural. Let us, however, examine them a little closer and see how they work out in practice. They deal with two forms of investment. A man with money to invest may lend it to someone else or he may acquire the ownership or part ownership of some industry or business the ultimate object of which is to make money. For the sake of brevity

we will refer to these two classes of investment as loans and shares. In our modern economy shares of one kind or another in limited liability companies probably do actually form the bulk of that class of investments which we now term shares.

Let us first consider loans. A loan is ordinarily expressed in terms of money. This is a great convenience as it enables the borrower to obtain any form of wealth or services he desires. If the investor, instead of lending his money, decided to spend it, all he could get in exchange would be some form of goods or services. For reasons given in Chapter Fifteen, land is being excluded entirely from this discussion. Human services are in their nature transient, and practically all kinds of human wealth or goods are perishable. The most necessary forms of wealth, for example food, are many of them the most perishable. One might say that gold or diamonds are practically imperishable, but these are liable to be lost or stolen and require the expenditure of money to ensure their safety. And, after all, what a small part of human desires do they in themselves satisfy, that is apart from their exchange value. The borrower who receives the loan, when he spends it, that is when he exercises the claim which the money means, can similarly only obtain things which are transient or perishable. Money, however, is quite a different thing. Subject to two conditions, viz. that the community continues

to exist and does not disown or depreciate its currency, the money in terms of which a loan is expressed, is imperishable. It is an imperishable claim on the community to deliver goods or render services. The expression of the loan in terms of money thus renders the investment something which is in its nature imperishable. By way of comparison let us consider a loan not expressed in terms of money. One man hires out to another a horse or a machine. The horse in time becomes useless or dies. The machine wears out. What is lent is not imperishable. The transaction is essentially different from a loan expressed in terms of money.

Let us look at the other form of investment, shares. The money invested is actually expended in the purchase of various goods or services necessary to the production of wealth or the making of money—machines, offices, the hiring of workmen or clerks, etc. This wealth is all of it more or less perishable and the services are transient. But the rights of the shareholders to receive dividends, that is to establish a series of claims upon the community in the future, are, subject to two conditions, imperishable. These two conditions are that the company remains solvent and continues to produce wealth or to make money. The shareholders thus have the right to establish claims which are unlimited and have no relation to the value of the original sacrifice made by them when they made the investment.

The original wealth purchased with the money they invested may have long ago perished. The services that money procured may have been performed many years ago. But under the principles we have stated they own the industry or the business, and, as long as it is successful, their rights to the profits are imperishable.

As we have seen, a worker's claim is established by the production of some wealth or the doing of some service. An investor's claim is established without the production of any wealth or the doing of any service. The production of human wealth requires human labour. The rendering of services requires the same. The investor does not labour. It therefore follows that all human wealth is produced and all services rendered by workers. The wealth produced, however, and the benefit of the services are divided between both workers and investors according to the claims exercised respectively by either class. If it can be shown that the investors receive more than they are justly entitled to, it must follow that the workers receive less than their fair share. No individual can enjoy goods and services to which he is not fairly entitled without some other individual or individuals having to go without goods or services to which he or they are justly entitled.

Let us express the results of the working of our present system as summarized at the beginning of this chapter in another way. The system enables

the investor by the sacrifice of one sum of money to purchase an income which will continue indefinitely. The size of that income, generally speaking, varies with its safety. If he is content with a smaller income he can make it, humanly speaking, perfectly safe. What is this income? It is a claim, which the rest of the community must honour, to supply him and his successors, without any further exertion on their part, with goods and services as long as the income lasts, for all practical purposes in perpetuity. The production of these goods and the rendering of these services entail labour on the part of other men. If the investor and his successors enjoy these without contributing any labour themselves it means that some of those who have laboured have had to that extent to go short of the reward of their exertion. Multiply this millions of times and we have a picture of our modern world. Surely this goes far to explain why the majority of our workers are still poor!

Yet again, let us ask what is the sum of money the investor originally invested? If, instead of investing it, he had spent it, all it could have procured him would have been so much perishable wealth or so many transient services. Surely it is anomalous that he should by the simple process of investment be able to translate what corresponds to nothing beyond perishable wealth or transient services into an imperishable right to receive wealth and

services from his fellow men without his giving anything in return. In other words the system produces a result which is entirely contrary to the principle of social justice adopted in Chapter Two.

To summarize the position at which we have arrived. All human wealth is produced and all human services are done by workers who establish thereby claims themselves to receive wealth and services. These claims are limited in amount and in time, and have little relation to the true value of the work done or the services rendered. On the other hand, investors establish claims to receive wealth and services without producing any wealth or rendering any services themselves. Their claims, moreover, are unlimited in amount and in time. Further, we have seen that, if investors get more of the wealth and services than they are justly entitled to, workers are unjustly deprived of a portion of their fair share. In these circumstances one might very naturally ask whether, according to the principle of social justice we have already laid down, investors' claims should not be rejected altogether. Why should not the whole of the wealth and services be enjoyed by the workers by whose toil the wealth is produced and the services rendered? Would not such an allotment be entirely in accordance with our principle?

Before we can find any answer to this question there are one or two aspects of human life and

society which must be considered. First, human beings cannot be workers during the whole period of their existence in this world. There is the period of immaturity during which they are growing up and being prepared for future usefulness and service. There is the period of old age during which we are all agreed that it is only fair that they should rest and enjoy the fruits of their past labours. A hard and fast rule, therefore, that none should be able to enjoy wealth or services except in immediate exchange for labour done or service rendered would not accord with the facts of human nature.

Again, in the conditions of our modern life, wealth, except in very small quantities, cannot be produced without the aid of already existing wealth. Investment is an entirely necessary part of our modern economy. If we are to have investment in sufficient quantities there must be some inducement to invest. In its absence too many would be spenders and the industrial machine would begin to run down. It is essential that the inducement to invest should be great enough to ensure that this does not happen.

We have thus found that, on the one hand, investment is necessary to our economy. That is, the investor must be allowed to establish claims to receive wealth and services produced by the labour of others without himself contributing any labour

in return. On the other hand, to allow him an imperishable right to keep on claiming this wealth and these services to an unlimited extent is not in accordance with the principles of social justice. We come, therefore, to the conclusion that the investor must have rights to establish claims but that these rights must be limited. Under our present system there is no limit, and the absence of a limit is the principal cause of the existing mal-distribution of wealth. The main problem in our search for a system which will produce a greater approximation to social justice is thus concerned with this limit. How is it to be fixed, how is it to be imposed, and how is the change to be made without a fatal dislocation of the economic machine?

Chapter Five

The Limit

ANYONE in possession of money which he does not wish to spend immediately has two courses open to him. He can invest it or he can hoard it. Hoarding of money in any quantity has certain inconveniences and certain risks. There is the danger of total loss by theft or accident. Then there is the risk that if the hoarder himself meets with some accident his store of money may be lost to those who in accordance with his wishes should have benefited by it. The finding by strangers many years later of small hoards in unexpected places is a common experience. On the other hand there is a definite risk attached to many investments. If the money is lent the borrower may become insolvent and the principal be irrecoverable. The particular industry or business in which shares are taken may be unsuccessful. If, therefore, such a limit were imposed to the claims which an investor might establish as would make it impossible for him to get back more money than he invested the scales would in many cases be turned in favour of hoarding as against investment. It is needless to emphasize that any such result would be disastrous to the

The Limit

community. It is, therefore, clear that any limit imposed must leave room for the investor, if successful, to receive a return which is larger than his investment. In other words there must be an allowance for an investor's reward.

Without such a reward the modern industrial and commercial machine would be in danger of breaking down, unless it were to be taken over and run by the State, in other words, unless complete State Socialism were to be established. We are not in the present discussion contemplating any such solution, but rather endeavouring to arrive at just principles to govern the distribution of wealth under which private enterprise and initiative would continue to have free play as at present. It is, therefore, a matter of expediency, in fact of necessity, that allowance should be made for an investor's reward. It can, further, be argued that such a reward is not inconsistent with the principle of social justice already laid down. Saving and investment are vitally necessary to our modern economy. The person who invests, though he does not with his own labour make any contribution to the sum total of human wealth or services, yet, by abstaining from the immediate exercise of his claims and being willing to incur some risk with regard to their future exercise, does perform a function vital to the interests of the community. If allowance is not made for him to reap some reward he can

only perform this function at a sacrifice to his own interests. It would, therefore, appear to be only just that he should be allowed some reward.

Under present conditions under which no limit is imposed the investor's reward tends to vary with the risk incurred. The greater the risk the larger must be the inducement to invest. A limit imposed by law must, to a large extent, be an arbitrary one. It is difficult to see how definite account can be taken of this element of risk. There would appear to be no other expedient than to lay down the maxima for rewards in various classes of cases and leave competition between investors to bring down rewards to lower levels in cases in which the risks were less. Competition is bound to enter. The motives to save and invest will still be there. Men will still strive as they do now to reach a position in which they can consume without working and to provide for their dependants and for their own retirement and old age. Investment being, therefore, a necessity to investors, there will be competition between them for the better investments available. This will result in returns smaller than the limit being accepted in cases in which security is greater. In the proposals made below the element of risk is not directly provided for.

Two classes of investments, termed respectively loans and shares, have been specified above. It is submitted that the community reaps greater

advantage and the investor runs greater risks in the case of the latter than in that of the former. The creditor grants a loan expressed in terms of money, which is, as we have seen, an imperishable claim upon the community. He is not concerned with the success or failure of the venture upon which his money is expended provided his debtor remains solvent. He can and generally does take such security for repayment as to make it reasonably safe. The risks he runs are not of the same nature as those incurred by the investor in shares. Many investors in loans are humanly speaking perfectly safe. On the other hand the investor in shares stands or falls with the success or failure of the industry or business in which he invests. Without such investments human wealth cannot be produced in large quantities nor many kinds of services rendered. The community, as stated above, stands to reap a greater advantage from them than from investments in loans. It would, therefore, appear to be just that allowance should be made for the investor in shares to obtain a higher reward than the investor in loans.

Chapter Six

The Theory of the Limit in the Case of Loans

It is proposed to take investment in loans first and consider the nature of the limit that could be fixed in its case to the investor's reward. It will be necessary to get away entirely from preconceived notions on the subject. We are so accustomed to the present system of the payment of interest that it appears to us perfectly just and natural. We perhaps find it difficult to understand why, until comparatively recent times, usury was universally condemned by the conscience of mankind. It still is, at any rate in theory, by large sections of the human race. It is strange that the conscience of civilized man, which has become more tender in many respects, for example in its attitude towards slavery and the rights of women, should have hardened in this matter of usury. It is not proposed to discuss the history of this development, but merely to emphasize what, it is submitted, has already been made abundantly clear, that our present system of the indefinite payment of interest until such time as the principal of a loan has been repaid in full cannot be brought into harmony with the

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principle of social justice we have adopted in Chapter Two. It is, therefore, proposed to get away from it altogether and consider the matter from an entirely new angle.

As we saw above, all that can be obtained in exchange for money is so much perishable wealth or so many transient services. Money itself is, subject to the fulfilment of certain conditions, imperishable. This imperishability is a quality due not to any merit or any exertion on the part of the owner of money, but to the stage of development to which the community has attained. It is not just that the individual owner of money should be allowed to take advantage of what is not in any way due to his own exertion to found any perpetual right against the community. But this is what he does do under our present system. He translates a right to claim a limited quantity of wealth or services into a perpetual right to claim an unlimited quantity of wealth or services from the community without rendering any services in return. He is enabled to do this through the imperishability of money. If what the lender can get for his money is perishable or transient the loan itself should be of a similar quality, although for the sake of convenience it is expressed in terms of imperishable money. In order to secure justice to creditor and debtor alike an artificial position would have to be created by law. That is, a loan would have to dwindle just

as most forms of wealth do. But since the terms of life of different forms of wealth vary in an almost infinite degree from a few hours to many years the law would have arbitrarily to fix the term of years which was to form the life of the wealth represented by a loan expressed in terms of imperishable money. The amount of a loan would have to be made to dwindle year by year until at the end of the term it vanished altogether and the creditor had no further claims upon the debtor. If, for example, the term were thirty years the annual rate of dwindle would be $3\frac{1}{3}$ per cent. The word "dwindle" is here adopted as a substantive to express the new idea. If after fifteen years the debtor repaid, a payment of 50 per cent of the original total would discharge all that remained of his obligation.

It is manifest, however, that the debtor could not be allowed to take advantage of the position so created by law to defraud the creditor of the return to which we saw he was justly entitled. It would have to be enacted that the dwindling of the loan did not depend on the lapse of time alone, but also upon the return being received within that time by the creditor. No dwindle without return would have to be the rule and, as a corollary, no return without dwindle. There would, in fact, have to be a definite relation between the rate of return and the rate of dwindle. Further, in order to secure what we have already termed an investor's reward, the rate of

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return would have to be higher than the rate of dwindle. If it were less the creditor would obviously lose. If it were the same he might ultimately get back what he had given to the debtor but with no reward. The margin by which the rate of return exceeded the rate of dwindle would be the rate of reward.

Further, it would obviously make a difference whether the creditor's return were spread over a shorter or a longer period. For example, supposing the prescribed relation between the rate of return and the rate of dwindle were seven to four, this would be equivalent to a reward of 75 per cent. It is clear that it would make a great difference whether this return were spread over thirty years or only three. It would, therefore, be necessary in justice to borrowers to fix a top limit to the annual return a creditor might receive.

To summarize the position we have reached, the relation between the rate of return and the rate of dwindle in the case of loans would have to be fixed by law; also the maximum rate of annual return which the creditor might receive. For the sake of example let us say the relation were 7 to 4 and the maximum 6 per cent. A loan for which the maximum return was paid would have a life of $29\frac{1}{2}$ years. This result is obtained by dividing 175 by 6. If no repayment were made before the loan expired the total reward would be 75 per cent

of the original sum lent and would be spread over $29\frac{1}{2}$ years. If the annual return agreed on between the creditor and the debtor were less than 6 per cent the life of the loan would be proportionately longer. A return of 5 per cent would give a life of thirty-five years, and so on.

In the last paragraph it was of course assumed that no repayment was made by the debtor. Only the annual return was made to the creditor. There would, of course, be nothing to prevent contracts being made, as now, to repay after any specified time. Such contracts would be subject to the same law, and the balance due at any given date would be the original sum lent minus the total of the dwindle up to that date. Thus, in the example given above, if the debt were to be discharged after ten years, during which time the annual return of 6 per cent had been paid to the creditor, the balance due would be, to the nearest halfpenny, £65 14s. $3\frac{1}{2}$ d. per cent.

In the case of any default by a debtor the creditor should presumably have much the same legal remedies as he has at present. When no return had been paid no dwindle would take place. Return in arrears should not, however, automatically become an additional debt upon which an additional return could be claimed, a procedure equivalent to the charging of compound interest under our present system. The right of the creditor so to constitute arrears of return into a new debt should

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require the consent of the debtor or the order of the court. Or it would be better still if such reconstitution were to be made illegal except in cases in which the court found the debtor guilty of positive dishonesty and made a special order against him.

Chapter Seven

Practical Application of the Limit in the Case of Loans

IN the last chapter certain general principles were outlined according to which legal limits could theoretically be prescribed to the reward of the investor in loans so as to bring the relations of debtor and creditor more into harmony with the principles of social justice we have adopted. No suggestions have been made as to the exact figure at which the relation between return and dwindle or the maximum annual rate of return might be fixed. Nor has the question been discussed whether these figures should be the same in all cases or differ according to the circumstances or nature of the particular loan. These are matters which may be left to be worked out later. This book will be confined to recommending the new principles and considering the possible scope of their practical application. It is necessary to consider how far these general principles could in practice be applied at all to investments in loans under our modern conditions. In making any change the aim to be kept constantly before us is to preserve what is good in our present system whilst removing what is anomalous and

works injustice. Again, changes suggested must not be such as to put the economic machine completely out of gear. Any such result would, as already remarked, spell disaster and, far from serving the cause of social justice, would make our last state worse than the first.

We may first consider how the practical application of the new principles would be affected by the term of the loan. While they would appear to be eminently suited to long term loans they certainly could not be applied to some short term loans and it is a question to be discussed whether their application to any is practicable or desirable. The problem will also arise how the line is to be drawn between the two classes of loans for the purpose of applying the principles.

Let us consider some common forms of short-term loans. A bill of exchange as soon as it has been negotiated becomes a form of loan. In its case the investor's reward is determined at the outset by the discount at which the bill is negotiated. This reward may be spread over a number of holders, who for a time lend their credit to the instrument. A bill of exchange is almost a form of money. It is of immense value in facilitating commerce and it is difficult to see that its use contributes to the inequitable distribution of wealth or is anything else than an advantage to our economy. It is difficult to see how the new principles could be applied to a bill of exchange or similar instrument.

We next come to bank credit in the form of advances, overdrafts, or money at call. It may be remarked that there are certain essential differences between a short-term loan made by a bank and one made by an ordinary individual. The individual can only lend money which he actually commands. This money is generally in the shape of a claim upon a bank. The bank, on the other hand, lends what it creates in order to lend, viz. a claim upon itself. This claim upon itself constitutes in reality an addition to the credit currency or cheque money of the community. The bank is enabled to act in this way by the species of monopoly held by it in common with the rest of the banks. This monopoly confers great opportunities but also carries with it important obligations to the community. As long as the banks do not create a larger quantity of credit currency than is permitted by sound banking practice and the credit is honoured by the community, all is well. It would be open to the individual instead of lending his money to spend it, that is, to exchange it for wealth or services. It would be impossible for a bank to deal in a similar way with the whole of the credit which it loans out. If it attempted to do so it would quickly cease to be a bank and those responsible for its management would almost certainly find themselves in prison. The argument applied to a loan in Chapter Four would not, therefore, appear to apply to a loan

by a bank of its credit. The banks by the provision of the cheque currency perform a function essential to our modern economy. The writer cannot see that their operations contribute in themselves to the mal-distribution of wealth, nor that, as some have represented, the banker is the villain of the piece. The worst that can be urged against him is that he is overpaid for his services. If, however, the principles outlined in Chapter Nine were adopted the benefits of over-remuneration would not flow exclusively into the pockets of the shareholders of the banks but would be spread over a large class, viz. all the workers in the banking industry. Again, even if there were danger that the banking industry should be over-remunerated for its services to the community, there would appear to be a remedy within the power of the State, which could put a legal limit upon the rates which could be charged for bank credit. The State could also take steps to foster amalgamations of banks so that the present serious overlapping might be lessened and the work thus done more economically.

From the practical point of view the application of the principle suggested in the last chapter to the loan of bank credit would render the present system of overdrafts unworkable. This system is of immense practical value to industry and commerce. As already pointed out, it is not clear that it contributes to the mal-distribution of wealth or is a cause of

social injustice. The conclusion, therefore, would appear to be that neither theoretically nor practically could the new principles be applied to short-term loans by banks.

We may next consider loans made to banks by persons other than banks. These are ordinarily either on current account or deposit account. The former do not today ordinarily bear interest and would, therefore, not be affected by dwindle. The latter are fixed for definite periods and bear interest which varies according to the length of the period. It is suggested that it is unnecessary to consider the application of the system either to current accounts or to deposits of under a certain term which could be fixed by law, say for example, a year. Loans by the public or members to savings banks, co-operative credit and thrift societies, or similar institutions, unless definitely fixed for a period longer than say a year might similarly be put outside the scope of the new system, as also similar loans made by these institutions.

With regard to any short-term loan transactions it may be remarked that if the term of the loan did not exceed a year or the period, if less than a year, for which in accordance with our present system there was a contract between the parties that interest should be paid, the application would operate only in restricting the rate of interest that could be charged. For example, if the maximum annual

rate of return were fixed at 6 per cent and the relation between return and dwindle were 7 to 4 it is evident that at the end of the year the creditor could on his loan of £100 receive back only £102 $\frac{2}{3}$ (= principal £100 - dwindle £3 $\frac{2}{3}$ + return £6). This would be equivalent to his getting back the whole of his principal with interest at 2 $\frac{2}{3}$ per cent under the present system. If, however, the loan ran on into a second or third year the creditor would receive an annual return of £6 per annum but the principal would dwindle by £3 $\frac{2}{3}$ each year. The soundest conclusion would appear to be that the principle of dwindle should not be applied to any loan the term of which was not longer than one year or such period, if less than a year, on the completion of which a payment of interest or a return by the debtor to the creditor was provided for by the contract between them. A limit should, however, be fixed to the return which a creditor could receive upon his loan, in our present parlance, to the rate of interest that could be recovered. It should, moreover, be understood that the present system of bank overdrafts should not be interfered with, the renewal of an overdraft for a further term being regarded for the purpose of the law as a fresh loan. When, however, a loan was made by a bank on the definite understanding that it was to continue for a period longer than a year it would be governed by the new principles.

The next question which arises concerns the parties as debtor and creditor. Should the new principles be applied irrespective of whether the one or the other were a private individual, a company or corporation, a local or semi-government body, or a Government? Banks have already been discussed with reference to overdrafts and short-term credit. Bank-notes, whether issued by the Bank of England or on the authority of the Treasury, and which are theoretically promises by the bank to repay money, should of course not be affected. Apart from these and other similar exceptions there would appear to be no reason why it should make any difference who was the debtor or creditor. In the case of long-term loans the new principles would reflect much more faithfully than our present system just relations in terms of real values between a Government and its creditors. Take, for example, the internal and external loans raised during the war. If the obligations of the Government had been fully discharged at their face value the Government would, in terms of real values, have repaid several times over what it had actually borrowed before that obligation could have been discharged. The fact that this liability has in the case of the internal debt been reduced by a successful appeal to the patriotism of its citizens and in the case of the debt to America simply left in abeyance does not affect the question. Under the new principles the reward of the lender

would from the outset have been limited in a definite relation to the term of the loan, any extra advantage they obtained being only what resulted from the variations in the value of money. Further, repayment from the point of view of the Government would have been vastly simplified, as the principal of the loan would have been gradually disappearing with effluxion of time. The same arguments would apply almost equally to loans to local or semi-government bodies. The suggestion, therefore, is that the new system might both with justice and advantage be applied irrespective of who were the parties concerned as debtor or creditor.

To summarize the conclusions of this chapter, the new principles are readily applicable and eminently desirable in the case of long-term loans irrespective of the character of the parties. The principle of dwindle could not be applied to loans the term of which was not more than a year or the period, if less than a year, after which payment of some return by the debtor to the creditor was provided for in the contract between them. In the case of such short-term loans a maximum return only could be fixed. Apart from these and other exceptions specified above the new principles would be applicable to all classes of loans irrespective of the character of the debtors or creditors.

Chapter Eight

The Change from the Old to the New Principles in the Case of Loans

UNDER our present system the relations of debtor and creditor are unnatural and artificial. They have reached their present position with the gradual development of money from a species of perishable wealth with an intrinsic value of its own to an abstract and imperishable claim upon the community with no intrinsic value of its own. We are, however, so accustomed to the present position that we do not perceive its artificiality nor how far it is in reality divorced from the facts of life, until, as we have endeavoured to do in the preceding chapters, we dig beneath the surface and explore its foundations. The new relations here suggested are more in harmony with the facts of life, yet their introduction must still lead to an artificial position. This is due to the necessity of our still retaining the expedient of money in the form into which it has now evolved. For the sake of convenience we must express what should really be a loan of perishable wealth in terms of imperishable money. But we wish to do so without the loan taking on, as it does under our present system, the imperishable

quality of the money in terms of which it is expressed. This can only be done by the creation by law of an artificial position. Not only so, but it is a position which will at first seem very strange. It will require a reorientation of our present ideas, a completely new habit of thinking upon the subject, a new conception of what is honest and dishonest. In these circumstances, if the change is to be effected, the law will have to go a long way in effecting it. Not only must it refuse its assistance to the creditor who seeks to recover more than the maximum return or a balance of his debt greater than he is entitled to under the system, it should also refuse to enforce at all contracts involving evasion of the law, and should even go so far as to make such evasion punishable by the criminal court. The connivance of the debtor should be no legal defence. It will be necessary to evolve upon the basis of the new principles a new conception of right and wrong, of honesty and dishonesty. The attempt on the part of the creditor to recover more than the system permits must in time come to be regarded as morally dishonest, a species of misappropriation of what he has no moral right to, of fraud against the debtor and against the community. The new perspective will in course of time be gained by the community, but the ball must, so to speak, be started rolling by the passing and enforcement of the law.

It may be argued that morality cannot be inculcated by statute. But can we not trace a parallel in the earlier Factory Acts? The position then was that the good employer with the best will in the world could not treat his employees with the consideration he would like to have shown them or he would have been forced out of business by his more unscrupulous brother. The law was, therefore, necessary to whip in the more hard-hearted and enable the more considerate to follow the methods already dictated by their own inclinations. Today, quite apart from the compulsion of the law, public opinion would universally condemn the employer who followed methods generally considered right and proper in the early days of *laissez faire*. In the improvement of factory conditions the law was necessary, so to speak, to start the ball, and public opinion, a large section of which at first condemned the Factory Acts as an unwarrantable interference with economic laws, in time fell into line behind the improvements. May it not reasonably be anticipated that history would repeat itself in the matter of the adoption of more equitable relations between debtor and creditor?

The introduction of the new principles would involve changes in the whole basis of many kinds of business. Two examples are insurance and building societies. It would require the modification of many existing contracts. For this a certain period

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of time and extensive legal facilities would be necessary. The changes contemplated in the case of loans, as also those later dealt with in the case of shares, are analogous to the removal and reconstruction of the foundations of an existing building. Such an operation, as we know, is possible, but infinite care and patience are necessary if the work is to be carried out without running the risk of the building collapsing in the process. A definite date would no doubt have to be fixed after which all new loans would have to be governed by the new principles. Another date, of which still longer notice would be necessary, would have to be fixed before which all outstanding loans would have to be brought under the new system. The easiest general principle to follow would probably be to treat the whole balance due upon an old loan on the date in question as if it were a new loan granted upon that date.

It is not proposed in the present book to discuss the numerous problems and difficulties that would have to be encountered in the introduction of the new system. It is recognized that these would be immense. It is submitted, however, that if, as the writer believes, it has been demonstrated that the foundations of our present system cannot be brought into harmony with the principles of social justice and that the new foundations suggested represent a closer approximation to those principles, it should

not prove an impossible task to effect the change in the course of a reasonable period of time. The main object of this book is to recommend the new system, not to follow out in detail all the implications of the change to it from the present system.

One or two aspects of the change must, however be considered. Certain transitory measures would be necessary with a view to securing that the change did not inflict any injustice or hardship that could possibly be avoided upon any class of the community. This matter is dealt with in Chapter Ten in connection with the changes proposed in the case of shares, and will not be discussed further in the present chapter. The position created by the adoption of the new principles by one or more nations while the rest continued under the old is touched upon in Chapter Eleven.

Chapter Nine

The Limit in the Case of Investments in Shares

It is next proposed to deal with the other large branch of investments, viz. shares. In Chapter Six it was proposed that the qualities inherent in human wealth and human services should be imparted artificially by law to investments in loans. A loan, though expressed in terms of imperishable money, should by law be given a limited term of life. Further, this term should have a definite relation to the periodical return received by the creditor from the debtor. Exactly the same principles must be applied to shares. At present the rights of shareholders, subject to two conditions already stated, are imperishable. These rights must, therefore, be limited to a definite term of life and that term must bear a definite relation to the return received by the shareholders. Again, we saw that in the case of loans it was necessary in justice to the debtor to fix a maximum to the rate of annual return the creditor could receive. A similar maximum must be fixed in the case of shareholders.

It is submitted that the application of these principles to shares has already been amply justified.

The money originally invested by the shareholders represents perishable wealth or transient services. In course of time this wealth perishes and is replaced by fresh wealth produced by the labour of those engaged in the industry or business. After the original contribution by the shareholders the latter contribute no labour or service. Yet, under our present system, their rights continue indefinitely, are, in fact, as we have described them, imperishable. It is not necessary at this stage to emphasize further that such an anomaly cannot in any way be brought into harmony with the principle of social justice we have adopted.

The period required for the original wealth represented by the money contributed by the shareholders to perish varies, according to the nature of the industry or business, from a few days or even hours to a long period of years. The term of life which shares should have must, therefore, be fixed arbitrarily by law. Further, this term must have a fixed relation to the return received by the shareholders. It is proposed that this relation should be the same as that between the term of a loan and the return received by the creditor, a maximum being fixed for the annual return. Let us see how this works out. Take, for example, 7 to 4 as the relation between the annual rate of return and the rate of dwindle in the case of a loan with a maximum annual return of 6 per cent. If the debt

is not repaid at all the total return is 175 per cent of the total sum lent. This return is spread over a period of $29\frac{1}{8}$ years, by which time the debt will have expired. Let us apply the same principle to a share the original contribution for which was £100. Say the maximum dividend is 6 per cent and this dividend is regularly paid in full, then the shareholder's interest will expire in $29\frac{1}{8}$ years. By that time his total return will have amounted to £175.

Upon the expiration of the rights of the shareholders the question at once arises as to whom these rights would pass. The Socialist view would undoubtedly be that they should pass to the State as representing the community. It is contended, however, that this would not be the fairest solution. The industry or business has been built up, its wealth produced, and its good will created by the energy of the workers employed in it. Why should they not become the owners of what they have created by their brains and muscles? A glance back at the second paragraph of Chapter Three will refresh the reader's memory as to what is meant by the term "workers." All whose energy has contributed to the carrying on of the industry, or business are included, from directors or managers to unskilled manual labourers. The proposal, therefore, is that on the expiration of the rights of the original shareholders the ownership of the

industry or business should pass to the workers, who will step into their shoes and become the new shareholders.

To give effect to this proposal it would be necessary to reconstitute the shares and reallocate them. In many cases a revaluation of the company's assets might be necessary so as to avoid over- or under-capitalization of the business. Either result would interfere with the just working of the new system. A measure of the value of the services of the workers amongst themselves would also be necessary to determine their respective rights to receive shares. All work done for the company from the date upon which it came under the working of the new system or started operations, if it did so under the new system, as the case might be, would have to be taken into account. No doubt some minimum qualifying period of service, say a year, would have to be laid down. The next question would be as to how service was to be measured, and it is suggested that remuneration received, whether in fees, salaries, or wages, would be the best criterion. Each would then benefit in proportion to the value that had actually been put upon his services by the company. The fact that any individual who had been a worker had ceased to be employed by the company would not affect his rights if he were otherwise entitled to participate in the allotment of shares. He might have retired or he might have passed into other

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employment. This would not deprive him of the reward of his former labour under the company.

The workers past and present would thus become in due course the new body of shareholders. The new shares should be held on the same terms as the old, having a similar life dependent on the amount received in returns. In the example given above they would expire after the dividends received had reached a total of 175 per cent of the value of the shares on the basis of the valuation of the company's assets at the time reallocation was made.

The above proposals would put investors in shares almost exactly on a par with investors in loans, provided the maximum of the annual return in both cases was fixed at the same level. It was argued, however, that both justice and expediency demanded that allowance should be made for investors in shares, if their enterprise were successful, to reap a larger reward than investors in loans. How it is proposed to produce such a result can be made clear by indicating in outline the manner in which it is contemplated the gross earnings of the industry or business carried on by a company would be distributed. It is assumed that wages or salaries would be paid as under the present system. These must necessarily be a first charge on the company's resources. It is further assumed that they would be fixed, much as at present, by the working of the law of supply and demand,

modified by various social and political factors. Leaving out, for the moment, money carried to depreciation, reserve, or similar funds, provision for which might be made in the articles of association of the company, the next call on its earnings would be dividends to the shareholders. These would be limited to a maximum laid down in the constitution of the company, of course within the maximum prescribed by law. What remained after dividends had been paid would be regarded as and termed profits. It is suggested that profits should be distributed 25 per cent to the shareholders and 75 per cent to the workers. Distribution amongst workers would be made upon the same principles as have already been suggested for the allotment of shares, viz. on the basis of the value of their services to the company during the period in respect of which the profits had been calculated.

By such an allotment of the gross earnings of the company, shareholders would be enabled, if the industry or business was sufficiently successful, to reap an additional reward over and above their dividends and one the amount of which did not in any way affect the life of their shares. There would thus be an additional inducement to invest in shares as compared with loans.

Under the arrangements outlined above the ownership of the industry or business would gradually pass with the payment of dividends from the original

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shareholders to the workers past and present, who would upon the expiration of the original shares form the new body of shareholders. From this it would logically follow that, with the ownership, control of the company's operations should also gradually pass from the old shareholders to the workers. The rate of this passage each year should be determined automatically by the size of the dividends for the preceding year. The problem thus arises as to how the workers are to exercise the share of control which becomes theirs. Logical application of the principles we are following would put this into the hands of all workers for the company in proportion to the total value of their services as measured in wages, salaries, or fees, from the date of the company's commencement of operations under the new system. To give literal and detailed effect to this principle would in the case of large companies be next to impossible. Difficulties would also be enhanced by the necessity, if the principle were to be fairly applied, for the preparation of revised voters' lists before every meeting of the company. There is no doubt that some simpler method by which the workers could be represented at the meeting would in practice be essential. Possibly a certain unit of service determined according to the length and value of work paid for, might be made to give a vote to be used in electing workers' representatives who would wield the workers'

voting power at the meeting. A worker could, of course, acquire more than one such vote. Services which had, so to speak, been commuted by the allotment to a worker in respect of them of shares would no longer count towards votes in the election of worker's representatives. The worker would have acquired shares by his work and his right to participate in the control in respect of that work would be exercised as a shareholder instead of as a worker. It is not proposed to endeavour to follow further in detail the practical application of the principles proposed. The writer, however, believes that the gradual transfer of control from shareholders to workers as suggested above should not present insuperable difficulties.

It may also be added that it is not proposed that there should be any restriction upon the negotiability of shares whether by the old or the new shareholders. The market value of shares would of course decrease with the payment of dividends and the decrease of the total of dividends which could still be received. In cases in which new capital was required for the expansion of the company's operations any new shares issued would be on the same general conditions as the original shares and subject to the restrictions laid down by law or in the constitution of the company.

Chapter Ten

The Change from the Old to the New Principles in the Case of Shares

THE introduction of the new principles outlined in the last chapter would necessitate great changes in the law governing limited liability companies. Under the present law important advantages and wide protection are granted by the community to shareholders. No doubt this has enabled a great expansion of industry and commerce and has thus conferred considerable benefits upon the community. At the same time, as has already been pointed out, the privileges of shareholders have resulted in the distribution of the wealth produced by companies in a manner which cannot be brought into harmony with the principles of social justice we have laid down. It can be argued that it is only fair that in return for the advantages and protection afforded to the shareholders by law the obligation should also be laid by law upon the company to adopt a system by which a more equitable distribution of the wealth produced or the money made should be effected as between the shareholders and the workers.

As to the measures necessary to effect the actual

change there should be no very great difficulty in providing that all new companies formed should be constituted under the new order. In the case of existing companies, however, the transition would not be so easy. Some considerable time might have to be allowed for their reconstitution under the new system. In many cases a revaluation of the assets of the company and a reassessment of the respective values of existing shares of various kinds upon the basis of the revaluation might be necessary. The company could then start under the new system upon this basis just as if it were a new company. Many difficult problems would no doubt present themselves for solution in the change from the old system to the new. It is not proposed, however, to discuss these in detail in the present book. One important aspect of the change must, however, be dealt with as especially affecting the question of social justice.

There might be a serious danger that the changes contemplated might inflict hardship and injustice upon large numbers of people, many of them of small means, who at present depend for their livelihood upon the dividends from shares. If these dividends were suddenly to be cut down it would mean a serious reduction in the incomes of these people and in many cases might cause serious distress. No great change can be brought about without hardship being caused to someone. Every means,

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however, should be exhausted to secure that, while the attainment of the main object was not lost sight of or unduly delayed, the least possible hardship or injustice should be inflicted upon any class of the community. With these objects in view certain transitory provisions would be necessary.

Before proceeding to discuss these provisions, let us pause to consider certain principles of social justice concerned. Under our present system incomes with an indefinite life are passed on from one generation to the next. The result of this is that the heir is enabled to claim wealth and services from the community which he can enjoy without rendering any service or contributing any wealth in return. This would appear to be a direct negation of the principle of social justice we laid down. What, it is submitted, the heir can fairly claim is his maintenance during the period of his immaturity and an education befitting his status to enable him to take his proper place in the community. Anything he claims beyond this, in so far as it exceeds the just limits already laid down to the returns upon the investments of his forebears, is a definite encroachment upon the rights of the workers who have produced the wealth or who render the services he enjoys, and constitutes a positive injustice to other members of the community. As already insisted in another chapter no one can enjoy more than his fair share of wealth and services without

someone else getting less than he has earned. The more the drones eat the less food there is for the working bees. In the economy of the beehive this is well recognized and before food gets scarce the drones are got rid of. In considering special provisions in the interests of investors of slender means it is thus clear that there is no call from the point of view of social justice for these provisions to be anything but transitory. Any permanent protection of existing incomes would not only defeat the principles upon which the new system was founded but would also be unjust.

How far, then, should this protection of incomes extend? The following general principles are suggested. If the possessor of the income were past the prime of life or otherwise permanently disqualified from making up the deficiency by his or her own reasonable exertions, the life of the possessor should be covered. If the possessor had dependants, for example if he died leaving a widow or children, the life or the period of immaturity, as the case might be, of these should also be covered. In other cases protection for a limited term of years would provide all that justice required. The general principle should be that those provided for by the old income and who would in the new circumstances be unable by reasonable exertion to provide for themselves should not be left to be reduced to want by the change. Only those whose incomes fell

below a certain level should be preferentially considered. There would be no call to secure the incomes of the rich.

Two ways are suggested in which this protection could be given. A corporation or trust could be established by the State to which shareholders eligible to be granted protection could, if they wished, surrender their shares in exchange for bonds which would yield a fixed income and continue for a definite term of years or until the occurrence of certain events, as the case might be. The income would have to be fixed according to an assessment, over a certain period of years preceding the change, of the average income derived from the shares surrendered, or, in exceptional cases, of the average income that might reasonably have been obtained in the future had the change not taken place. Special machinery would be required for the making of such assessments. Once the surrender had been made the former shareholder would cease to have any interest in the company, his place being taken by the corporation or trust. There would be no compulsion upon any person to surrender his shares if he preferred to hold them and to take his chance. In certain cases the improvement in industry and trade due to the change might well result in an enhancement rather than in a diminution of his former income.

The second expedient would be to introduce

temporary provisions into the new articles of association of all companies reconstructed under the new system safeguarding the interests of certain of the shareholders. This expedient would lead to a number of complications and the first suggestion would appear preferable. The corporation or trust proposed would be free to dispose of shares on the open market and with the expiry of the bonds it had issued could be finally wound up. It would have to be financed by the State. It is quite possible that the sum total of its operations would result in a profit rather than a loss. If a national investment board were in the future brought into existence its functions and those of the corporation or trust here contemplated might conceivably be vested in one body.

Cases might similarly occur in which the incomes of persons of small means were prejudicially affected by the operation of the change in the relations between debtors and creditors. The same general principles, *mutatis mutandis*, would have to be applied in dealing with such cases as with those of small shareholders. Arrangements somewhat similar to those outlined in the last two paragraphs could probably be made to deal with such cases, the persons affected being given the option of surrendering their holdings in return for the guarantee of an annuity covering the lives or period of immaturity as the case might be of themselves and their dependants. Dealing with such cases on an annuity

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basis the corporation or trust would be in a position to even matters out, as it would gain in any cases in which the term of the annuity proved shorter than the life of loan taken over, whilst losing in any case in which it proved longer.

Chapter Eleven

Two Further Matters Connected with the Scope of the Changes Proposed

THE ideal would be that the whole civilized world should adopt the new principles, but it is idle to hope that such an ideal would be realized at one step. If we had to wait until agreement could be reached between all the principal nations of the world it would certainly mean that no change would ever be made. It would, therefore, be necessary for such nations as could be convinced that the new principles represented a nearer approximation to social justice than the old to adopt the new system, leaving other nations to continue under the old. It would thus be necessary to envisage a position created by the adoption of the new system by one or more nations, say for example Britain and the nations included in the British Commonwealth of Nations, while the rest of the world adhered to the old economy. One immediate effect would almost certainly be widespread attempts to transfer capital from the area regulated under the new system to that still remaining under the old. No doubt a certain amount of foreign capital would temporarily be lost to us and early steps would have to be taken

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by our own Government to control the export of British capital, an undertaking by no means impossible under modern conditions. As we are a creditor rather than a debtor nation the change would be of immense benefit to the undeveloped countries to which we have lent money, and there would be no difficulty whatsoever in finding applicants for further loans did we desire to lend upon the new and highly advantageous conditions. Foreigners trading within the new area would have to conform to the new system and we might have to conform to the old system in some of our foreign trade. The two systems would no doubt be carried on side by side for a time. It is submitted that, once the change had been effected, the new economy would be productive of so great an increase in national prosperity that other nations would in time follow suit and the new system become universal.

It is believed that limited liability companies would cover the larger part of the capital invested in industry and commerce in Great Britain. Whenever it was sought to limit liability to the capital actually invested the obligation to distribute the wealth produced according to the new principles would automatically be attached. Cases in which such limit was not sought, for example an industry or business carried on by an individual with his own resources, or one in the hands of a syndicate which had not formed itself into a company, would present

a more difficult problem. It may be remarked, however, that such enterprises, even if they were permitted to continue on the old lines, would suffer in the labour market in competition with companies run on the new model. Employment under the latter, with its workers' profits in addition to wages and its further prospects of eventual shares in the company for the worker or his successors, would be far more attractive than employment under the old conditions. It is possible that it might eventually prove more advantageous and in fact more profitable to reorganize on the new lines than to continue on the old. But, apart from any such possibility, it should not prove an insuperable task to devise means by which all industrial or commercial enterprises, whether they were in the form of limited liability companies or not, should in time be brought into line with the new principles. It is not proposed to discuss this point further in the present book. As already stated, these pages only attempt to indicate the bare outlines of the principles which might form the new foundations of our economic system and to suggest that reconstruction upon them is not outside the range of possibility. It is not attempted to work out all the details or follow out all the implications of the new economy.

Chapter Twelve

Further Problems Connected with the Proposed Changes

ENDOWMENTS of one kind and another fill a large and increasingly important place in our modern life. Numerous activities, some of them of great utility to the community, depend to a greater or less degree upon endowments for their success and even for their existence. Such activities include many connected with churches and cathedrals, religious, educational, and scientific foundations, hospitals, and other philanthropic institutions, and many others. It is true that a great many of these endowments are derived from land which constitutes under our present economy the most permanent form of investment. This book does not do more than touch upon the land question, which must be reserved for separate treatment later. As far, however, as the funds are drawn from investments in loans and shares, and these would form a not inconsiderable part of the total, it is clear that the introduction of the new system would vitally affect all kinds of endowment. After the period fixed as the life of a loan or a share endowments would automatically come to an end. The result would mean that the

various activities referred to, in so far as they depended upon endowment alone, would come to an end. This is not a result which any of us could contemplate with equanimity.

Let us analyse a little more closely in the light of what has already been written what an endowment really amounts to. It constitutes a claim for the delivery of goods and the performance of services for which no return in goods or services is made except in so far as the activity supported does service to the community or any special portion of it. These goods and services involve human labour for their production or performance and this labour has to be given without any corresponding contribution by the recipients. An endowment is, therefore, equivalent to a tax levied upon the whole or a part of the community, with this difference from an ordinary tax, that the community is not consulted. It is a case of taxation without representation. It is not open to the community by changing its representatives to decline to pay. The tax is imposed by the will of an individual, more often than not one who is dead. The system thus puts it into the power of individuals to impose taxes upon posterity in order to carry out their behests. We will admit those behests are often good and the activities fostered are often in the best interests of the community. If, however, the present system of endowments were to continue it would to a large

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extent defeat the working of the new principles as outlined in the preceding chapters. Shares or loans the return from which was dedicated by their former owner to any special cause would have to be made an exception to the general rule and continue to be imperishable. Such a result would, when the new principles were adopted in all other cases, constitute an injustice to a number of individuals and cause serious dissatisfaction. Further, it might open the door to abuse by enabling individuals to dedicate their fortunes to some cause or other with the express intention of defeating the working of the new economy. The conclusions to which we are driven are, first, that theoretically endowments are entirely indefensible and, second, that if the new principles are to be introduced it is impossible for endowments in loans and shares to continue in their present form.

Must the various activities, then, supported at present by endowments, be allowed to languish or, if not, what is to take the place of the endowments? These are by no means easy questions and it is not proposed here to attempt any full reply. It is submitted that, even if the worst happened, that is, if the activities were allowed to languish, the gain in the adoption of an economy with a greater approximation to social justice would far more than outweigh the loss. Also that activities which in the general estimation of the public were worth carrying

on would to a large extent find the necessary support, and this would be still more likely to happen in circumstances in which national prosperity was increasing. Further, that it would be doubtful whether activities which could advance no such appeal to public support were in all cases worth preserving.

In certain cases, when it was generally agreed that it was in the public interest that the activities at present dependent or partially dependent on endowments should be continued, it might be possible for the State or the Local Authority, as the case might be, to take over the loans or shares which represented the endowment and guarantee the income, at any rate for a long term of years. It is admitted that there are certain serious drawbacks to this solution of the problem. In many cases it is desirable that the activities in question should be preserved from any kind of political interference, and it would not perhaps be easy to secure this when the funds which supported them would eventually have to be raised from the taxes or the rates. It is conceivable, however, that one or more statutory, non-political bodies might be specially created and provided with the necessary funds by the State and by Local Authorities for the purpose of dealing with the endowment question. It is also possible that in future years, when the general standard of living had risen and national prosperity increased

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to a far higher level than we have so far attained, endowment of special activities as opposed to their support by public contributions might be less necessary than it is at present. The whole question is one of considerable difficulty and it is not proposed to do more than touch upon it in the present book.

Another matter that may here be touched on concerns the control of industry and commerce. As already indicated, the aim in any changes should be to retain what is good in our present economy whilst removing what is anomalous and productive of social injustice. Leadership in industry and commerce by men of special genius is still a feature of our economic system. Such men from very small beginnings often build up colossal fortunes and retain a fairly complete control of their industry or business during their lifetime. It is often in the best interests of the industry or business that nothing should enter to disturb this control. Under the new system proposed it is probable that the fortunes such men acquired would not be so large as now. More would have been spread in workers' profits to their employees and less would have been amassed in the hands of the capitalist. This would be no great disadvantage, as the ambitions of such men normally go far beyond the mere amassing of money. It is important, however, that their control should not be prematurely disturbed. It is a little difficult

to foresee exactly how the new principles would work out in practice and much would depend upon the term at which the life of shares was fixed. One may, however, reasonably anticipate that the new system would not be likely to break the control of the founder of a great industry during his lifetime. Usually his fortune is not made during his earlier years and the accumulation of capital in his hands is progressive, more being acquired in a single year towards the latter part of his business career than in a period of several years towards the beginning. Thus, even if the earlier acquired shares passed from his control, these would be more than compensated for by his later acquisitions. It does not, therefore, appear that the danger is a very real one, though it must not be lost sight of altogether.

On the other hand family businesses passing on from father to son would be seriously affected. This is not so large a factor in our industrial and commercial life as it once was and, although something may be lost in the substitution of an inheritance of toil for an inheritance of birth, the loss will be small compared with the other advantages of the new system. It by no means follows, too, that the son of a captain of industry will inherit the qualities of his father. On the average it more often happens that he does not. In the latter case he must be mainly dependent upon the brains of others for the continued successful control of the business and his super-

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session under the new system will be no particular loss to the community.

Reference has already been made to the resistance in certain quarters to the early Factory Acts as an unwarranted interference with the working of economic laws. How harshly those laws would have worked under the existing system if there had been no interference on the part of the State to mitigate their results is now generally admitted. This interference has during the last century steadily increased the scope of its activity until it now covers a large part of our modern life. Socialistic legislation tends constantly to extend its sphere. In its result the State has interfered to a large extent to redress the mal-distribution of wealth resulting from the working of the principles upon which our present economy is founded. The rich are heavily taxed to provide social services for the poor and to keep the unemployed from starvation. We have now come to look upon this as a right and proper development. We have come to recognize in a way that our grandfathers never did that the State has certain duties to perform towards its poorer citizens. From the point of view of some this expenditure of the rich man's money for the benefit of the poor is regarded in the light of insurance, as the bribe of the rich man to keep the poor man quiet. Certain it is that without these social measures and without the dole we should long ago have been heading for

violent revolution and social chaos. Looked at from the broad point of view these modern activities of the State may be regarded as palliatives, attempts to mitigate the harshness of a defective economic system, an effort to reach some sort of social justice when such could never be attained by the unaided working of a system founded upon unjust principles. At the best all that has been attempted is a clumsy substitute for justice.

The working of the new principles proposed in this book would result in a progressive drying up of some of the main sources from which the taxes are gathered to carry out the present Socialistic activities of the State. Large incomes will be fewer and income tax will decrease. Death duties will shrink. On the other hand the mass of the people will be better off and in a position to undertake a larger share of the burden of taxation, which could be more evenly spread. On the whole we may expect that the State will have less to spend upon its social programme. The other side of the picture, however, is a more equitable distribution of wealth, greater real national prosperity, increased production to supply the needs of the masses, which at present go unsupplied for lack of the means to buy. A time will come when those who are now poor will less and less need the subsidies of the State, having the means to provide for themselves. In a word the working of the new principles should reverse the

present tendency towards larger and larger instalments of Socialism. Under the new system, with greater real equality our national economy should tend to become not more but less Socialistic.

Some may object that the new system would soon result in a shortage of the capital necessary to industry. It is not easy to foresee exactly how the new economy would work out in practice. It may be pointed out, however, that the old inducements to save and invest would still continue. It is not proposed that the State should do more than it does now to provide for the poverty, sickness, old age, or education of its citizens. It was argued that the tendency would be towards a reduction rather than an increase of these services. The mass of the citizens becoming better off would be better able to provide for themselves, while the sources from which the State now draws a great part of the revenues to be spent on these services would tend to dry up. From this point of view, therefore, the necessity for thrift would tend to become greater rather than less. Again, there is no reason to anticipate that men would strive less than they do now to reach a position in which they could consume without the necessity of working. They will still desire to provide for their old age and for their dependants. This means that the inducement to save and invest will be the same as before.

It may further be remarked that the present

tendency is for too much of the savings that are made to go into investments in loans and too little into investments in shares. Under the new system the greater attractiveness of the reward of the latter form of investment would be likely to correct this tendency. Much could also be done in the improvement of the machinery of investment. A great deal of capital has within recent years been lost in bad investments. Much of this waste could be avoided were better opportunities for safe and profitable investment provided for the ordinary man. It may not be necessary to establish a national investment board working under the auspices of the State, but investment trusts of various kinds under a certain measure of State supervision should be able to provide all that is necessary. Today the banks provide perfectly safe machinery for the keeping of people's money. Why should not investment be similarly organized and rendered comparatively safe for the ordinary man?

Even today, with the distribution of incomes in its present unsatisfactory state, the savings of the poorer classes amount in the aggregate to an enormous and growing total. Under an economy which is going to give the masses of workers a larger share in the results of their toil it is likely that these savings will increase. The majority will have more to spend and also more to save. It is unlikely that savings will not be sufficient to provide the capital

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necessary for industry. Given some improvement in the machinery by means of which the money saved could be invested there would not appear to be any ground for fear that industry would be starved for lack of capital.

Chapter Thirteen

Results of the New System

WHAT may we anticipate would be the results of the adoption of the new system outlined in this book? We may consider its effect upon the very large class which works for wages or salary. In the first place it would give them, what they have not at present, a definite and direct interest in the results of the industry or business in which they were employed. One of the chief difficulties lying in the way of the employer who would like to raise wages is the conviction so widely prevalent amongst workers that it is not in the best interests of their class that they should do too much work. Under present conditions this conviction, if not entirely justified, certainly merits considerable sympathy. Give the worker a direct and really substantial interest in the output of the factory or the success of the business and his complaint will not be of the mate who does too much work, but of the slacker who does too little. It is certain that the goal of real national prosperity, of plenty for all, can never be attained unless all workers are prepared wholeheartedly to put their backs into the task of producing it. That the worker will never do

until he is satisfied that greater exertion on his part will not result merely in enhanced benefits to the capitalist with the added danger of diminished employment for his own class. The proposals made in this book to give the worker, over and above his wages or salary, a large and immediate interest in the profits of the business, an ultimate interest in the whole of the capital invested in it, and an ever increasing voice in its control, should supply him with the incentive, wanting under our present economy, to do his best in the struggle to wrest wealth from Nature.

We might further observe that numbers, if not the majority, of those who today constitute the brains of industry belong under the conditions of our modern organization rather to the worker than to the investor class. The latter class tends more and more to become a sleeping partner. As workers the men who constitute the brains, impart the driving force, and guide the machine, will be in a better position and have a larger interest in the success of the enterprise than they do at present. What they lose as investors they will more than gain as workers. This is a very important point. The new system, far from discouraging enterprise, brains, and energy, will encourage them. It will not be a case of the entrepreneur seeing the fruits of his enterprise filched by his labourers but rather of the worker, whatever his position, whether director, manager,

clerk, or workman, being freed from the unfair claims of various sleeping partners and enabled to reap a more adequate share of the harvest of his own toil.

As already observed, the goal of real prosperity, plenty for all, can only be reached if all are prepared to put their backs into the task. We have seen how the worker's incentive will be provided. But beyond this under the new system, there are bound to be fewer drones. The opportunities to live without working upon the returns from investments will automatically be curtailed within juster limits. The scales will no longer be weighted against the worker. Work will be, far more than it is at present, the real avenue to wealth and the enjoyment of the services of others. The worker will get a fair deal. Under these conditions the numbers of workers will tend to increase and the drones to decrease. The inheritance of toil will have superseded the inheritance of birth. Capital will be continually passing out of the possession of those who do not work into that of those who do. As we have seen this process will entail no injustice. On the other hand, it will constitute real justice as between the worker and the investor. It will create greater equality of opportunity and greater fairness in the allotment of rewards. There will be a nearer approximation to the principle of social justice adopted in Chapter Two.

The new system, introduced with due safeguards and provisions to obviate the unnecessary infliction of hardship or injustice upon any class of the community and with sufficient time allowed for the transitional period, should not seriously upset the functioning of the economic machine. Once introduced it should impart an immense additional stimulus to work and to production. Wealth would continue to be produced as now but with the difference that its distribution would be more equitable and, as a consequence, its production would be increased. The rapid expansion of our home market should be one of the most important results of the new system. It is difficult to picture the enormous quantities of wealth it would be necessary to produce in order to supply our people with what they would need to bring them all up to a reasonable standard of comfort. Yet this is what they will require, and more and more be in a position to pay for as the remuneration they receive increases with the addition of workers' profits, and later on of dividends also, to their wages. One result might very well be the steady increase of the relative importance of the home as compared with the export market. The old struggle for markets abroad will tend to diminish. Export will gradually tend to become important rather as a means of securing imports that are needed than as a vent for getting rid of wealth that cannot otherwise be consumed. There will not be the wild

scramble to find borrowers in every corner of the earth as there will not be so many people with superfluous savings, and more capital will be needed at home.

Chapter Fourteen

Socialism

IN the matter of the attainment of social justice our present economic system has proved itself bankrupt. The more we progress in technical efficiency the further do we get from the goal. If we leave out of account the results of various forces which are no part of the system, which enter only to interfere with and mitigate its working, and which we may term uneconomic, the system itself produces ever greater and greater inequalities in the distribution of wealth. If our present system, as even its own supporters are driven to admit, can never produce an equitable distribution of wealth, whither are we to turn? Social justice is our first plank. A system which can never produce it cannot, therefore, be allowed to continue unmodified. What is to be the alternative? The reply of the majority of those with whom social justice is the main issue and who are profoundly dissatisfied with our present system would be that social justice can never be attained so long as the initiative in industry lies with private individuals influenced by motives of private gain. The first great change must be to put this initiative into the power of

the State. The State must control the means of production and employ them for the common good. The State must ultimately be the financier, the employer, and the distributor of wealth. Then and then only can justice be secured for all. And, since it is difficult to discriminate between the merits of the services rendered by one individual and those of the services rendered by another, all must be remunerated alike. In a word they would prescribe State Socialism as the only alternative to our present system.

With all our innate love of fair play and justice for the under-dog we have not yet adopted this alternative. There does not appear to be any immediate prospect of our doing so. True, a great deal of our legislation in the past half century has been Socialistic in tendency and the State or the local authority now undertake many activities considered a few years ago as altogether outside the scope of government. But we have not yet accepted Socialism as a whole. Industry and commerce are still left to private initiative and private profit is still the motive power which actuates them. We are still hesitating to take the plunge. What is the reason? It certainly is not that we contemplate with equanimity the present mal-distribution of wealth or that we are content that millions of our people should continue to live little removed from the poverty line. It must, therefore, be that

we are, as a nation, by no means convinced that the remedy prescribed is the right one or indeed that it may not be worse than the disease.

State Socialism does not suit our national genius. Our great accomplishments in the past have been the fruits of private enterprise and individual initiative. A system which is going to damp this down and tend to reduce all to a dead level of equality does not appeal to us. We are rather apprehensive that a dead level of equality may mean a dead level of inefficiency. Further, Socialism brings with it certain serious drawbacks and dangers. More perhaps than any other nation we prize our individual liberty. We fear that State Socialism and liberty cannot live together. There is a serious risk that the adoption of the former would entail to a large extent the sacrifice of the latter. It is not proposed here to enlarge upon this aspect of the subject. One may merely point out that as the financier, employer, and distributor of wealth, the State is bound to assume such powers as will minimize or jeopardize altogether our individual liberties. It is difficult to see how the dictatorship of the proletariat, the working of which we have seen in another country, is going altogether to be avoided. Even if we escape it, the regimentation of our lives in a manner utterly alien to our ideas of personal liberty would be inevitable. The prospect is not inviting.

Again, those who advocate State Socialism are, to say the least of it, somewhat hazy as to how they propose to give practical effect to their ideals. All our experience leads us to believe that a government is not the body best fitted to carry on industry and commerce. We fear that the loss of efficiency might be so serious as to jeopardize what prosperity we at present enjoy. Though the division of wealth might be more equal there might not be so much to divide. In such circumstances the rich might be reduced to poverty without any corresponding benefit to the poor. The uncertainty and hazards of the venture make us hesitate to take the plunge.

One cannot help thinking that many of those whom we may call men of good will, men of real patriotism, who would be prepared to go a long way in the sacrifice of their personal interests in accepting any change which they were convinced was for the common good, are upon the horns of a dilemma. The present social injustice is an evil. State Socialism is also an evil, but perhaps it is the lesser evil of the two, and there is no other alternative. Therefore, contrary to their better judgment, they are driven into the Socialist fold. But are we on the horns of a dilemma? Is it true, as appears to be commonly accepted today, that Socialism is the only alternative to the present order? Is it not possible to preserve our liberties, to retain a system under which private enterprise and initiative shall still have free play,

and yet to get far nearer to social justice than it is possible to do under our present system? The whole object of this book is to proclaim from the housetops that it is possible, that State Socialism is not the only alternative. What we should do is to establish fair rules for the game and then leave individuals to find their own level as now. There will always be inequalities. Our aim should be to equalize opportunities to a much greater extent than today. Men will never make equal use of equal opportunities. It is impossible, even if it were desirable, to reduce all men to equality. There will always be inequalities of wealth. What we should strive to secure is that whole classes of the community are not kept down by the inequitable working of the system beneath a line above which the mass of them can never rise. The rules must be fair. At present, as the writer has endeavoured to show, they are hopelessly weighted in favour of the investor as against the worker. The latter has not a fair chance. It is not necessary that the State should do everything for us. Let it lay down fair rules and then keep the ring as now as between the investor and the worker. The field of private enterprise and competition should be as open as it is under our present system but subject to fair principles which will give the worker at least as good a chance as the investor. The belief has already been expressed that the results of the working of the system suggested in

this book would in the end be that we should tend to become less, rather than more, Socialistic. The goal of social justice can be reached without State Socialism. It is not true that there are only two alternatives. There is a third course open before us.

Chapter Fifteen

Land

So far nothing has been said about land save to exclude it from the discussion. The relative rights in the distribution of wealth and services as between the investor in loans and shares and the worker who produces the wealth and performs the services have been discussed. Land is a factor of immense importance in the problem of social justice. The results of our present land system are the very negation of the principle adopted in Chapter Two. Land has not, therefore, been omitted from consideration because the problems concerning it are not matters of the first importance. It has been omitted, first, because it is so vast a subject that it appears preferable to treat it in a separate book, and, second, because investments in loans and shares can more easily be treated if the complications of the land question are for the time being left out of account. This book would not, however, be complete if that question were not touched on, leaving its more detailed treatment to a future occasion.

In the term land it is intended to include things which exist by the bounty of Nature and cannot be produced by the labour of man. It is contended

that from the point of view of social justice the monopolization of land by individuals to the exclusion of others cannot be justified. The bounty of Nature must in common fairness belong to the whole community. Every member of that community should have equal rights to it. That one member should have to pay rent to another for the use of land is, therefore, wrong in principle. If rent is to be paid for land, and it is difficult in our modern society to see how this can be avoided, that rent should be paid to the community. In practice this would mean its being paid to the State as the trustee of the whole community. The revenue obtained by the State from land would belong to the whole community and the fairest way of disposing of it would be as a dividend amongst all the members. How far such a disposal would be practicable or how far such revenue should be utilized as a substitute for other forms of taxation as proposed by Henry George need not now be discussed. Suffice it here merely to state that the demands of social justice can only be met by the abolition of the system under which rent for land is payable to any private individual or to anyone but the State as the trustee of the whole community.

The proposal made by Dundas White in his *Nature's Budget* (George Allen & Unwin Ltd., 1936) for the collection of national land rent would have many excellent results, especially in the stimulus

it should give to land development. It would not, however, in any way satisfy the demands of social justice. The private landlord would still exact rent for the use by others of the bounty of Nature. It is, further, an open question whether as the ultimate monopoly holder he would not be able to transfer the whole burden of the land rent on to the shoulders of the man who actually made use of the land. Social justice cannot be satisfied until a system has been evolved under which the whole of the rent for land goes to the community. All that the private holder should be able to receive should be a fair return upon his own labour applied to land or upon his money invested in improving it.

To effect this object would necessitate far-reaching changes. In considering measures to bring them about the following matters would have to be borne in mind. First, effective utilization of land demands exclusive possession. Second, no one is going to put his labour or his money into land unless he can be reasonably sure that he will reap a return. For this purpose security of tenure is essential. Third, unless great injustice and hardship are to be inflicted upon many who at present depend upon revenues derived from land, the change by which all rent for land is transferred from private individuals to the State will have to be made gradually. It is not proposed in the present book to follow up this subject further. It is introduced

because the writer is convinced that social justice can only be attained by a radical alteration in our land system, in addition to the readjustment of rewards as between the worker and the investor, which has been outlined in the preceding pages.

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