

**REVOLUTION  
BY REASON**

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REASON

*An Account of the Financial Proposals  
submitted by OSWALD MOSLEY at the  
Thirty-third Independent Labour Party Con-  
ference, and endorsed by the Birmingham  
Borough Labour Party and I.L.P. Federation*

BY

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TO  
O. M.,  
WHO MAY SOME DAY DO THE THINGS  
OF WHICH WE DREAM

## PREFACE

REFORMERS have no longer any need to rely on humanitarian or religious sentiments when they demand the revision of our economic system. That system is in decline, and the issue to-day is not whether we should attempt to abolish it, and substitute a new Social order in its place, but rather when and how that now necessary substitution shall take place. Shall it be soon, gradual and peaceful? Or shall it be long postponed, sudden and disastrous? Are we to affect "a revolution by reason," and so achieve a new era of human development? Or does an abyss of chaos, social regression and catastrophe—a dark age of unreason—still separate us from the new era?

At the moment, it is true, we seem willing to regard miserable poverty and overwork, varied by periods of complete and compulsory idleness, as the normal condition to which mankind has been reduced, by having learnt how to command the production of boundless wealth. But if the irony of such a situation misses us, the misery hits. Slowly, but inexorably, this condition of things is becoming intolerable to the mass of mankind; and therefore, whether we like it or not, we must attempt some change.

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I try in the first chapter of this book to bring this general situation to the reader's notice. In the second chapter to give an explanation of how it has arisen : in the third to give another and different explanation : in the fourth to show that these explanations are complementary and not contradictory to each other : in the fifth and sixth chapters, to submit tentative constructive proposals ; and finally in the last two chapters to discuss the chief objections to these proposals.

This suggested outline of a policy is becoming known as "The Birmingham Proposals." They were first set out by Mr. Oswald Mosley at the 33rd Annual Conference of the I.L.P. and have been endorsed, after being much discussed and considerably developed, by both the Birmingham Borough Labour Party and the I.L.P. Federation.

I have described them here, because they form the only proposals that I have been able to discover which do satisfy such reasoning and analysis as I have tried, I fear very clumsily, to set down in these pages. But I am sure that the formulator of these proposals would be the last to claim that they offer the only possible solution. There may be other and different proposals which would also satisfy this economic analysis. Certainly there are numberless variations on the present proposals which may all be found to be improvements. Thus I do sincerely hope that even those readers who do not find

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themselves able to accept "The Birmingham Proposals" will yet examine carefully the modern, but by no means original, economic arguments on which they are based. For, if they cannot find some flaw in those arguments, it behoves them to set about thinking out a better constructive policy. For unless there *is* a flaw in those arguments, some such proposals as these are a necessity of the future.

They are not advanced as a cast-iron policy by every line of which their supporters are bound. They constitute rather a piece of practical pioneer thinking in unexplored territory—territory in which constructive thought is urgently required by the vast problems of a menacing and exigent epoch. Great tasks of Government are ahead of the Labour Party, and it can hardly be amiss for any of its members to tackle, as best they can, the formidable economic problems which confront us. It is certainly possible that fatal objections may be discovered to some of the propositions herein advanced: and that errors may be detected in one or other of the numerous chains of argument which are submitted; for it is human to err. But the hopes and aspirations of those who have been responsible for these proposals will be amply fulfilled, if in the end it is found that the divine sparks of creative discontent have been kindled in a few minds, and the general thought of the movement assisted by the discussion of this book.

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At any rate I offer these pages, rude and uninstructed as I know they often are, in the one hope that they will make people *think*. In the second and third chapters I have deliberately restated much modern economic thought in the simplest and crudest language I could find, in the hope that in this form its significance might break its way through, even to an indifferent reader.

The sources of information and the economic authorities on which I have drawn are far too numerous to acknowledge. Indeed, no particular originality need be claimed for our economics. One aspect of the considerations on which our proposals are based, has been emphasised by one group of thinkers, another aspect by a different group. Thus we owe the very best account of the Socialist conception of the rational planning and organisation of our productive resources to our leader, Mr. Ramsay MacDonald himself. Again it is Mr. Keynes, and his Cambridge economists, who have brilliantly developed the purely monetary aspect. Again, the conception of working-class purchasing power, and its vital importance to the successful working of the modern industrial system, has of recent years been pressed with characteristic vigour by the Scottish Labour movement. The contribution which the Birmingham movement has sought to make is rather to weave these various aspects of modern thought into one comprehensive whole. And on this whole we



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have essayed to build a structure of drastic Socialist proposals.

But I must thank a number of friends who have helped me with suggestions, corrections and objections. Mr. Oswald Mosley, who is the originator of these proposals; Mr. Clifford Allen; Mr. Brailsford; the members of the I.L.P. Finance Committee who discussed them at Easton Lodge during the summer of 1925; Mr. E. M. H. Lloyd, who has twice read the MSS.: his criticisms are always as kindly as they are acute; and also my dear father, whose views, on currency at least, are so lucid and so advanced, that I fear he will be a little pained by the Conservatism of some of these pages.

E. J. S.

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# REVOLUTION BY REASON

## CHAPTER I

### POVERTY

#### I

INNUMERABLE philanthropists, reformers and salvationists have sought to analyse or to depict the delinquencies of modern humanity. They have pointed, now here, now there, at various features of our Society in order to account for the shortcomings of ordinary men and women. Some of them inform us that the root evil of our time is "drink." Others preach that nothing can be improved without "a change of heart." Others again that ignorance is the foe to be attacked, and that education offers the only field for useful Social endeavour. But they seldom pause to enquire whether there is not a simpler explanation for the drink, the vice, and the ignorance, which they are so quick to deplore in common folk. They seldom seem to ask themselves whether they too might not exhibit some of these very characteristics if they were compelled to live in the material circumstances which surround the average Englishman. They

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fail too often to see the chill hand of penury behind those symptoms of which they complain.

For Poverty is like one of those words, written so large upon the map that you cannot find it. If you look at a large-scale map of Europe you can see the names of the countries—France, Germany, England—very easily. But as for the word EUROPE itself, that is written so big, and the letters are so spread out, that unless you hold the map a long way from you, you cannot see anything but a detached U or P or E—letters which do not form themselves into a word. So in the grim map of our industrial society, the names of the different things we find in it—drunkenness, vice, ignorance, squalor—are easy to pick out. But across the sheet the name of the whole Continent, the word poverty, is scrawled too huge for the peering eye of the student to detect.

And so it has remained for one of the greatest of living Englishmen to tell us plainly that “what is wrong with the poor is their poverty.” In a great passage he has written :

“ . . . the evil to be attacked is not sin, suffering, greed, priestcraft, kingcraft, demagogy, monopoly, ignorance, drink, war, pestilence, nor any other of the scapegoats which reformers sacrifice, but simply poverty. . . . Money . . . represents health, strength, honour, generosity and beauty as conspicuously and undeniably as the want of it represents illness, weakness, disgrace, meanness and ugliness.”<sup>1</sup>

<sup>1</sup> G. B. Shaw, “Major Barbara,” the Preface.

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Drink, damnation and folly are not indeed the prerogatives of poverty. (A visit to the well-to-do quarter of any town will soon suffice to dispel any such illusion.) And that they can all be avoided by exceptional men, living even in the worst material conditions, is proved by innumerable and glorious examples. But the heroism of the poor has too long been used as an excuse for doing nothing to help them. That heroism is too great to need any new tribute; it is for us to concern ourselves with the task of altering the economic circumstances which make it necessary. For after all the bitter truth must be faced that in the long run the iron heel of prolonged destitution will grind even heroes into the mud.

Poverty—Destitution: they are the great ills. It is poverty which delivers one man over to another in an economic servitude which is only one remove from slavery. It is poverty that creates the extraordinary fissures of class and rank which crack our modern society from end to end. It is poverty that makes the nightmare of the back streets of our towns; that breeds up the population of our slums, a population forced to live lives differing as much from those of our Upper Classes as do those of South Sea Islanders. (We recognise this when we send "missions" and "missionaries" to Whitechapel as well as to Zanzibar; for to the rich Whitechapel is in many ways more foreign than Africa.)

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It is the fear of this state of poverty and destitution, the most terrible state which a man can fall into, that makes men struggle desperately and wildly with each other in their efforts to keep themselves and their families out of it. The memory of it, or an instinctive dread of it, will keep many a millionaire toiling sixteen hours a day to amass more millions than he can ever hope to begin to use—as if he wished to set a mountain of wealth between himself and the terrible memory. Poverty is the reality of modern life. Tacitly we recognise this, though openly we deny it. After all what else but this is the issue of modern politics? The rise of the Labour movement has brought the issue of Poverty, the issue of modern industrialism, the class issue, call it what you will, at last into the open. And once there it dwarfs everything else. To-day, though we are slow to recognise it, nothing else matters. The politics and policies of yesterday have faded like unsubstantial dreams. We can hardly believe that only eleven years ago the country was profoundly moved over Welsh Disestablishment, and that Englishmen were ready to die upon the question of whether the six North-Eastern Counties of Ireland should have their public affairs administered from London or from Dublin.

But (far more strange and more disturbing) gone too are the great issues on which the War was fought. Though we do not yet realise it, those very things for which the nation made

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incomparable sacrifices, and put forward a degree of common effort unparalleled in the records of its past—those things themselves are now but history. What precisely were they? What, in fact, did we fight for so tremendously and so tragically ten years ago? Was it to prevent Germany dominating Europe? We should be satisfied; it is France that dominates. Or was it for the traditional, realistic British Foreign Policy of preventing the Channel ports falling into the hands of a hostile power? They are in the hands of a power with whom we are already entering an armament-race in the newest instruments of death—the submarine and the aeroplane. Or was it more idealistically, in Wilson's famous phrase "to make the world safe for democracy?" The dead President may lie easy. Kings and Kaisers are fallen and no longer menace his ideal. Yet can we count democracy the safer for the years of violence?

All these things are as irrelevant to our present state as Welsh Disestablishment itself. Why should we desire that one nation rather than another should dominate Europe, or possess the Channel ports, when they are all almost equally hostile? As for political democracy, we have found that its achievement marks, not the end, but the beginning, of the struggle for true emancipation. The controversies which used to rage round this or that application, or limitation, of the mechanism of political democracy seem dim and distant memories. Ballots

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and Referendums, Proportional Representation and single votes, are, compared to the vital issues which face us to-day, but the stage properties of the old political game.

The truth is that all these things, real and vital as they were ten years ago, do not concern us now. To-day these questions have no meaning for us, their answers no relevance to our troubles. They have all been overshadowed by the vast problem of the economic system under which we all live, and have lived for more than a century. Before our very eyes that system is changing. Some say that it is visibly and rapidly breaking down. Others that it is only transforming itself, with pain and difficulty, perhaps, into something different and better. But at any rate at the moment it is producing, in a degree seldom exceeded before in our history, this terrible thing which we call Poverty. And to-day more than ever before it is joining with Poverty its second deadly evil, compulsory idleness—unemployment as we call it. It seems unable either to produce the things men need, or even to let them strive to produce them for themselves. It holds a vast army of men as if enchanted, unable to make the slightest effort to satisfy their most elementary wants.

The great twin ills of Destitution and Compulsory Idleness stare us in the face as the only things that really matter in our public life to-day. Four years ago, they produced the great mass movements which alarmed every Cabinet in



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Europe. And if at the moment the possibility of such revolt is over, the motives that prompted it remain, and even intensify. In their hearts even our rulers know this. They begin to guess that no stability can ever again be reached if the present degree of Poverty and Unemployment goes on. The restless pressure of great masses of men, trying to escape from the horrible lot which is all that our present society holds out to them, turns this way and that, seeking the way out. Yet it seems clear that, outside Russia at any rate, no solution has been found along the lines of mass revolutionary action. For good or ill that has failed. But the pressure goes on. Another route must be tried.

It seems clear that we in this country are embarked on the attempt to find a solution by means of constitutional "reformist" action. Accordingly, "the class war" drops out of our political vocabulary and "The Industrial Problem" comes in. For our politicians, with pardonable pride, have invented another "Problem"—"The Industrial Problem." This is simply a polite way of saying that seventy-five per cent. of our population live in miserable poverty and that over a million of it cannot even find any work to do. It is indeed a problem.

For although our politicians and our teachers of the Press and of the Pulpit have given the problem a name, they have done little to define it. Some seem to regard The Industrial Problem as a social question, capable of being solved

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by the application of a sufficient number of Boys' Clubs, East End Missions and "Associations of workmen and their employers." Some seem to regard it as a technical problem—a question of the exact number of man-hours required to make a lathe at Doncaster. Some seem to think of it as a Commercial problem, a question of Foreign Markets, Industrial Crises, Balances of Trade, etc., etc.

It will be the object of these pages to submit that the industrial problem is simply the problem of Poverty (for Unemployment is a special case of Poverty); that Industrial Crises, vanished Foreign Markets, adverse Balances of Trade are to-day but the signs and consequences, *not the causes*, of Poverty.

Shaw, in the Preface to "Major Barbara," expends his eloquence in pointing out the moral and human consequences of Poverty, "the vilest sin of men and Society." But here we must confine ourselves rigidly to the *economic consequences of Poverty*. We shall try to show that Poverty, when joined to our modern capacity to produce, is a twice-cursed evil. It curses the humble, for they cannot buy. It curses the great and the rich, for they cannot sell. The object of true statesmanship has always been to mitigate its effects. To-day its continuance is unforgivable, since for the first time in history it is unnecessary.

What then are these economic consequences of Poverty? They can be summed up in a

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sentence. *The poverty of the poor* (and that means the poverty of four-fifths of the nation) *prevents them buying enough things either to satisfy their own wants or to absorb the products of modern industry.* If this little book enables a few more men and women to acknowledge the implications and consequences of this one sentence, it will have realised the fondest hopes of its author.

## II

“What is the use of your spun shirts? They hang there by the million unsaleable; and here, by the million, are diligent bare backs that can get no hold on them. Shirts are useful for covering human backs; useless otherwise, an unbearable mockery otherwise. You have fallen terribly behind with that side of the problem!”—CARLYLE.

Carlyle wrote thus some eighty-odd years ago. But we seem as far behind as ever with “that side of the problem,” *i.e.* with the side of *distribution* and *consumption*. Since his day a revolution in the means of production, as great as the one which he witnessed, has taken place. “The spun shirts” now hang, not by the million, but by the ten million, yet still the bare backs get no hold of them. Still the “unbearable mockery” is somehow borne.

For general Poverty—the lack of the material things necessary to a tolerable life—may be caused by either of two things: first, by a real inability on the part of the Nation to produce more goods and services. In that case there is

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little to be done, except by way of a better distribution of what there is, and then only if such redistribution will not decrease the general stock: secondly, it may be caused by some breakdown in our social system, owing to which we produce only a small proportion of the goods and services which we are capable of producing.

If there is even the slightest suspicion that our general Poverty is to-day due to this second cause, then surely this suspicion must be probed ruthlessly. For it is for lack of these very goods that men suffer so terribly.

But to say that there is to-day a suspicion that we could in this country produce more than we actually do, is, of course, to put the case very mildly indeed. That our plant, our natural resources, our technical ability, our skilled labour could produce immensely more than they do to-day, is about the single thing that both the millionaire and the miner seem agreed about. But, as we know, they submit very different reasons for our actual failure to do so. Hence it may not be out of place to put down a little of the evidence for their unexpected agreement. There is, for instance, the fact that almost any manufacturer in one of our big basic industries will tell you that he could turn out double or treble the amount he does, if only he could get "the orders." Moreover, there are many factories, shipyards and mines actually closed down, with all their resources in machinery and plant standing idle.

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Secondly, there is the undoubted fact that during the war we were producing, with approximately the same material resources, many times the amount of goods which we do to-day. We were, incidentally, doing so at a time when some four millions of our best male workers had been withdrawn into the fighting forces. Many of the things we produced, such as shells or guns, were, though vitally necessary at the time, of no value in the economic sense. But there is no reason to suppose that we might not equally easily have been producing economically useful goods. (A modern steam-hammer makes swords or plough-shares indifferently.) We need not here enter into the question of whether our war-time *régime* was ruining us financially. At the moment it is enough to notice that our economic system was lately producing, with no more material resources, and much smaller human resources, an indefinitely greater amount of goods and services than to-day. We may accept this as evidence that we are not now producing to our maximum capacity. Again, our technical and scientific skill and knowledge increases year by year. But this does not result in any perceptible increase in production. Hence our latent capacity to produce must be steadily increasing. We shall notice some specific figures on this point at a later stage.

Lastly, there is the most obvious piece of evidence of all, the existence of one million two hundred thousand unemployed. How can it

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possibly be said that we cannot increase production, when we have this immense reserve of labour-power lying idle?

For what is the cause of Unemployment? Why do we hear in our market-places the old question, "Why stand ye all the day idle?" and the same sad answer, "Because no man hath hired us"? It is not that there are no machines standing waiting for idle mechanics, ready to turn out the things the world needs; that no minerals lie in the earth ready for the miner to dig them, or that the sun and the rain have ceased to swell and ripen the crops that a man may plant in the ground.

We all know that there are men ready, even desperate, for work—work which will mean to them a real life again.<sup>1</sup> *But they cannot get work*

<sup>1</sup> The meanest of all the lies with which the rich slander the poor, is the slander that men will not work unless they are systematically starved when they are unemployed. This is strong language, but if any doubt its justification they should compare the shrill lies of the employers' Press with the result of any scientific investigation. See for instance "Unemployment Insurance in Great Britain—A Critical Examination." This exhaustive investigation was undertaken by a group of prominent Conservatives and Liberals. They concluded: "far from holding out temptation either to the employed or to the unemployed, the benefit is less attractive than security and work. . . . It is abused by a tiny minority, but this assuredly does not mean that large quantities of work remain undone which would have been done but for the Scheme. . . . In the main, benefit is only received by those for whom it was intended . . . extreme care being taken to prevent malingering and abuse."

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*because there is no demand for the things their work would produce.* The results of their skill and energy would not have value—for there is no one willing to exchange other commodities for them. Thus a bootmaker in the Midlands is idle and in want. He cannot buy the food, the clothes, the fuel that he and his family need, because no one is ready to buy his boots if he were to make them.

Yet one hundred miles north of him in Lancashire there is a cotton-operative, idle and in want. He cannot buy the food, the boots, the fuel that he and his family need, because no one would buy his cloth if he were to make it. And north of him again is a miner, idle and in want. He cannot buy the food, the boots, the clothes he needs, for no one would buy his fuel if he were to raise it. And in the south is a farm-labourer, drifting idly and in want into a great town; he cannot buy the clothes, the boots, the fuel he needs because no one would buy his food if he were to grow it. In a word there is no "demand" for the characteristic product of each of these skilled men. And yet each of them is in want because he lacks the products of the others. This is the problem of Unemployment, the problem for which the first Minister of the Crown has said that "he never pretended to have a remedy." Let us examine it.

Unemployment, we say, is caused by a *lack of demand* for commodities. But just now we said that Poverty was a *lack of the commodities them-*

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*selves.* So in general we may say that Poverty is caused by a shortage of commodities, *i.e.* too little production to satisfy the wants and demands of the population. But unemployment is caused by exactly the opposite, by a surplus of commodities, *i.e.* too much production for the demands of the population.

Then how, in the name of sanity, it will be asked, can the two things co-exist in the same community at the same moment? How can there possibly be both too much production for the "demands" of the population and also too little production for those "demands"? When we have answered that question, we shall have gone far to grasp the riddle of our industrial system.

Obviously there is something more than a little ambiguous about this term "demand." From the producers' standpoint it means something which is permanently oversupplied, from the consumer's standpoint something which is permanently undersupplied. It is surely high time that a word which can mean two such absurdly contradictory things was put to its proof, dissected, analysed and split up into its component parts. But that analysis must be postponed to a later chapter.

### III

What has been submitted to the reader so far? That the root ill from which our community is suffering is poverty, which we define as the lack



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of a sufficient supply of the goods and services which we all need. That this evil and our attempts to mitigate it are becoming increasingly the dominant issue in our public life. That today poverty presents itself in a particularly acute form, and is accompanied by the special complication of compulsory idleness or unemployment. That it is essential to determine whether this poverty is due to a real inability to produce more commodities (in which case there is little or nothing to be done), or to some defect in our economic system which prevents our using our productive capacity to the full. That almost everybody seems to agree that we are not, in fact, using it to the full. That there is strong evidence to be drawn from common observation and from the experience of the war period that we are not so using it. That, apart from this evidence, the presence amongst us of one million two hundred thousand unemployed workers is a proof that our productive capacity is not exhausted. That we are therefore driven to the conclusion that there is some defect in our economic system. That when we come to enquire why actually we are not using our productive capacity to the full, we discover that it is because there is no "demand" for the commodities we could produce.

Yet we started out by defining poverty, the greatest of our evils, as a lack of goods and service, *i.e.* commodities. Now a lack of commodities must mean an unsatisfied demand for

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commodities. But we have just said that we are not producing to our full capacity because of a lack of this very thing, *i.e.* unsatisfied demand. But demand cannot both be under-satisfied and cause poverty, and oversatisfied and cause unemployment. Something is wrong somewhere. At once we are brought up against a contradiction.

### IV

All that has been said so far must seem the merest platitudes to those of us who are Socialists. That poverty is a fundamental ill is an assumption lying at the root of almost all Socialist literature and thought. And Socialists have always maintained that poverty—this lack of goods and services—is due, not to the community's real inability to produce more of them, but to a glaring defect in economic organisation. And they have unanimously diagnosed this defect as the result of a permanent, and hopeless, mal-distribution of ownership. They have maintained that the distribution of wealth is so unequal, that so large a proportion of the resources of the community are owned by so small a proportion of the population, that our economic system is hopelessly lopsided and unworkable. They do not believe that a redistribution of existing wealth, which gave an approximately equal command of goods and services to everybody, would in itself cure the

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great evil of poverty. But what Socialists do say is that such a re-distribution of ownership is necessary in order to redress the tilted balance of our economic system. For then, and only then, could that system function effectively and vigorously, and thus—by enormously increasing production—raise to a far greater height the standard of life possible for everybody. The enormous ship of our public economy is listing heavily, we say, and she must be got upon an even keel before she can forge ahead into that sea of greater production which we all agree is her destination. And Socialists give detailed and specific reasons why production, and particularly the production of the commodities most needed, cannot increase to capacity while the national wealth is as unevenly distributed as it is to-day. These reasons we shall examine a little later on.

This Socialist diagnosis was until very recently the only account of our economic system which could give a coherent explanation of the two apparently contradictory symptoms of Destitution and Unemployment—of Poverty in the midst of potential plenty.

But now there has appeared a new school of economists, who give another, and at any rate superficially plausible, explanation of the facts. They suggest that our tragic failure to use our capacity to produce goods and services in abundance, and so to satisfy the aching needs of our people, is not, primarily, due to a mal-distrib-

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bution of existing wealth. They ascribe a quite different reason; they say that we do not produce to our real capacity because an inappropriate amount of what they call "the medium of exchange," by which they simply mean money, has been issued to the community. These economists say that the issue of money is at present mal-adjusted to the needs of our economic life. And they submit that this so hampers the making of exchanges between different producers of goods or services (which is the method by which we distribute our commodities), that production is effectively and continually checked.<sup>1</sup>

Things, therefore, are not produced, because if they were, they could not be exchanged, and so be got into the hands of the people who need

<sup>1</sup> They call money "the medium of exchange" because we have chosen it as the thing with which to do all our trading, that is exchanging. If a man who makes chairs and tables wants to exchange some of them for food he does not go to a farmer and offer a table for so many bags of corn. He says that his table is worth, say, £2, while the farmer says that his corn bags are worth 10s. each. Thus they know that one table is worth four bags of corn. To "do business," to make exchanges, and each get the things they want, they need not even meet, but can simply "buy" and "sell" (the two parts of exchanging) their tables or their corn with money. In a word they do not exchange tables for corn, but corn for money and tables for money. Then with the money both have got, the furniture-maker buys corn and the farmer a table. Thus money has been the "medium," or transmitter, by which they have made their exchanges.

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them. They could not be exchanged because an inappropriate amount of "the medium of exchange" (*i.e.* money) has been issued. And these economists also give detailed and specific reasons for their belief that this remarkable theory will really account for the facts. We shall examine these reasons in the next chapter, where I have tried to give an account of what modern writers tell us of the workings of our monetary system. In Chapter III I have tried to set down the typical Socialist theory of the effect of our mal-distribution of *ownership* on the production, distribution and consumption, of goods and services.

Thus we shall make two different analyses of our economic system, one arrived at by considering money, that is, the medium of exchange by which we measure the value of the things we make. The other arrived at by a consideration of the distribution of ownership, both of the things we need, and also of the "tools" we make them with. One analysis will follow the stream of money as it flows through our Industrial System. The other will follow the fortunes of the actual goods produced under a system of the private ownership of the means of production. Both offer explanations of the great breakdown from which we are all suffering. Both will split up the word "demand" into its component parts. Will the two explanations turn out to be contradictory and to call for quite different kinds of action, or will they both in the last resort

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point to the same defect, though from different angles, and so demand the same remedy?

In fact we shall attempt to determine whether (i) mal-distribution of ownership is the real cause of the economic creeping paralysis from which we suffer, and that the vagaries of our medium of exchange can easily be stopped when that is put right, or (ii) that an irregulated medium of exchange is our real trouble and that our grave ill-distribution of ownership is but an effect—a symptom—of this irregulation and will cure itself when the former is put right.

The next two chapters will be devoted to statements of these two theses. Then in the fourth chapter we shall be in a position to consider the relationship between them. And not until then shall we be able to return to the case of that remarkable little word "demand" which we left a moment ago under the accusation of meaning one thing for the consumer and the exact opposite for the producer.

The remaining half of the book is devoted to the submission and discussion of concrete proposals.

## CHAPTER II

### THE "CURRENCY" THEORY

#### I

THE attempt to account for the facts of our economic embarrassments along "Currency" lines is dependent on "The Quantity theory of money." This theory states that:—

"The prices of things vary according to the relationship between their number and the amount of money in circulation." For if there are 1000 things, or "commodities,"<sup>1</sup> in a country, and if the total amount of money in circulation in that country is £1,000, then the average price of a commodity will be exactly £1. But if the number of commodities is now increased to 2000 and the amount of money is left at £1,000, it is clear that £1 will now buy

<sup>1</sup> By commodity I mean, of course, what Mr. Maynard Keynes calls a "Unit of Consumption," that is "a collection of specified quantities of standard articles of consumption or other objects of expenditure." Incidentally the reader will find "the Quantity Theory" "properly," that is algebraically, stated on pages 74-87 of Mr. Keynes' "A Tract on Monetary Reform" (Macmillan). As Mr. Keynes succinctly puts it,  $n = p(k + rk)$ . My excuse for elaborating, and I fear vulgarising this statement, is that it may not be *at first glance* clear to the ordinary reader.

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two commodities instead of one. Therefore the average price of one commodity will now be only 10s. In the same way, if the number of commodities is left at 1000, but the amount of money is decreased to £500, then also £1 will now buy two commodities instead of one, and a commodity's average price will again be 10s.

On the other hand, if the number of commodities is decreased to 500 and the amount of money is left at £1,000, then £1 will only buy half a commodity, *i.e.* the average price of commodities will be £2. The same thing will happen if the number of commodities is left at 1000 and the amount of money is increased to £2,000. (This is, after all, only an application of the Law of Supply and Demand to money.)

It might be supposed that this proposition is self-evident; it is, however, denied by all the more conservative professors of economics. Yet if they are right in denying it, then it is quite useless to go on with the attempt to analyse our modern economic system in terms of money, for no other theory of its relationship to commodities has ever been even suggested.

It is true that academic economists will usually, when pressed, admit that there is no logical flaw in the Quantity Theory. They fall back on the assertion that there are in practice so many disturbing influences that the theory has no real relevancy to facts. Indeed, it must not be supposed that things work out quite as simply in our world financial system



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as they do in the example given. An increase in the amount of money in circulation will not always, nor at once, lead to an exactly proportionate rise in the general level of prices. For example, the increase of money may get, as it were, caught up in the stockings of a peasant population with hoarding instincts, and may never produce its full effect on prices. But to use exceptions of this kind as a reason for denying the validity of the Quantity Theory, is rather like denying the Law of Gravity, because it is possible that when the tea-table is upset, the tea-cups will not fall to the ground, but will be saved by the folds of the cloth.

### II

But once the Quantity Theory is accepted as the general law governing prices, then an ever-extending vista of enquiry is opened up.

It becomes clear that the prices of things, *i.e.* "the general price-level," can be sent up or down by the man who decides how much money there shall be in circulation. The terms "Currency" and "Credit," which are now so fashionable, only mean *money* in all its forms, from a penny piece to a cheque for a million pounds. Nowadays money need not be made into coins or even into paper-notes in order to be "in circulation." It can simply be a statement in a banker's book that he owes somebody so many pounds. And this immaterial kind of

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money, this "credit," can be, and is, transferred, *i.e.* literally circulated, by cheques, which are simply messages to the banker telling him that he no longer owes the money to the man who is writing the cheque, but to the man who receives the cheque. For simplicity's sake, therefore, the term "money" is used, but it must always be borne in mind that it means *all kinds* of money, all "the means of payment."

As was seen above, if the number of commodities stayed the same and the amount of our money was doubled, everything costs twice as much. If the amount of our money were halved, everything could be bought at half-price. (Obviously, this must be so, because, if when the amount of money in our pockets was doubled, things did not cost twice as much, we should in an instant have got twice as rich, by the simple process of printing more money. But we can only get richer by producing more goods and services. This is, on the orthodox economist's own showing, the final proof of the Quantity Theory of money.)

This reflection leads to a definition of those much-used, and much-abused, words "Inflation" and "Deflation." We cannot say simply that inflation is an increase in the amount of money in circulation, because that increase may be accompanied by a corresponding increase in the number of commodities, and prices will therefore remain the same.

On the other hand, we cannot say that all

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variations of the price-level are signs of inflation or deflation, that if prices rise it is a sure sign of inflation, if they fall a sure sign of deflation, for this rise or fall may be caused, not by a variation in the amount of money, but by an increase or decrease in the amount of commodities available.

*A useful definition of inflation would be to say that it is an increase in the amount of money in circulation without a corresponding increase in the number of goods and services to be bought, and that it must always be accompanied by an increase in the general price-level.*

*Conversely, deflation is a decrease in the amount of money without a corresponding decrease in the number of things which money can buy; it therefore must always be accompanied by a fall in prices.* Whenever, and it will be somewhat frequently, we use these terms, they must be understood in this sense.

### III

It is easy to show that both inflation and deflation are undesirable, just because they cause, each in different directions, a movement in the price of things.

If you lend me £10 at a time when they will buy ten commodities and I pay you back six months later when more money has been put into circulation, without there being more things to buy, so that the £10 will now only buy five

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commodities, you will have a grievance against me; but I shall have had your £10. And I shall have spent it while I could get ten "things" with it, while you will get it back when you can only buy five "things" with it. In a word, all borrowers are benefited by inflation, because they pay back when money is "cheaper," *i.e.* will buy fewer things than when they borrowed, and all lenders are harmed. Conversely, all lenders are benefited by deflation and all borrowers harmed.

But inflation and deflation both have more important consequences than this. They both affect manufacturers, quite apart from whether the manufacturer is a borrower as well (which, as a matter of fact, he almost always is nowadays). If a manufacturer of, say, boots has £1,000 in hand, he can either leave that money idle, or he can use it as capital to make boots with. If he can produce boots at, say, £1 a pair, and sell them in six months' time at 30s. a pair, he will make £500, and therefore at the end of the process have altogether £1,500. But if a beneficent Government or a sagacious ring of bankers have in the meanwhile decided on a policy of deflation, his calculations will be upset. To take, for the sake of clarity, an extreme case. Let us suppose that they have halved the amount of money in circulation. Therefore every £1 will now buy twice as much as before. Therefore prices will be half what they were. Therefore our boot-manufacturer

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will not get 30s. for his boots, as *he* supposed, but will be forced to accept 15s. As a result he will make a loss of £250 instead of a profit of £500 on his output of boots, and will end up, not with £1,500 as he hoped, but with £750. This in itself might prove a discouragement to production, and might shake our boot-maker's faith in bankers. But let us suppose that he had a friend in that profession, to whom he had the temerity to complain. The banker might answer the manufacturer something as follows :—

“ It is true that you have ended up your transaction with £750 instead of £1,500, just half of what you hoped, and it is true that this has occurred because we decided to “*deflate*” the national currency and credit (money, that is) by one half. But have you not observed that when we did so, we, at the same time, reduced the price not only of boots but of everything else also, by one half. Everything is twice as cheap as it was, food, clothes, houses, trips to Brighton. In other words, your £750 will go twice as far as it would have before we deflated. *It is just as good as the £1,500 would have been at the old price-level.* My dear Sir, cheer up, you have lost nothing, and the bankers have once again proved the friends of industry.”

The boot-maker on thinking this over, would see that this was indeed the case. But a lingering feeling of dissatisfaction might remain.

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This might lead to the reflection that, had he kept his money lying quietly in the bank instead of engaging in business at all, while the bankers were busy with their deflation, he would have done better still. He would not now possess £750 which was, it is true, as good as £1,500 at the old price-level, but would still have his whole original £1,000, which would now be as good as £2,000 would have been at the old level. He would therefore draw the following conclusions :—

I. That deflation does not, as is so often said, cause losses to manufacturers and traders, if they are not also borrowers (which, as a matter of fact, they usually are to-day), because although it does do so in terms of money it does not do so in terms of what money will buy, *i.e.* purchasing power, as it is called, which is the only thing that matters.

II. But that what it does do is to set a premium on leaving money idle, or still more on lending it to someone else who is foolish enough to borrow it at a fixed rate of interest. For in times of deflation the lenders, the men of property, the owners of capital, in especial those of them who are content to "live by owning" and do not use their property themselves, do, indeed, sow on good ground and their seed is returned a hundredfold. This, of course, acts as the strongest possible deterrent upon production. As we saw, *the manufacturer makes more by doing nothing than by undertaking*

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*all the risks and anxieties of making boots.* For, after all, when the boot-maker decides whether to manufacture or not, he is really deciding whether or not to turn his money into boots; and his decision will depend on whether money is going to get cheaper or dearer, boots more or less valuable. So if the bankers suddenly decide to make money twice as valuable he will naturally stick to that. It is for these reasons that in times of deflation men and women are apt to go unshod.

It would be easy to follow out the argument in the opposite case of inflation. Here the manufacturer, who expected to get 30s. a pair for his boots, gets £3. He makes £2,000 instead of the £500 he would have made if the price-level had remained unaltered. Therefore he ends up with £3,000 instead of with £1,500. But prices have doubled. Therefore his £3,000 is only as good as £1,500 would have been without inflation. But, on the other hand, had he left his money idle, he would only have £1,000 which would, after the inflation, be worth only £500. Therefore he has the strongest possible incentive to produce, *i.e.* to turn his *money*, which will *depreciate* by inflation, into *goods*, which will *appreciate* by the consequent rise in prices.

He only nominally makes twice as much profit as he would have done with a stable currency and stable prices. Yet he would lose half his money if he left it idle. Inflation,

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then, has this characteristic: it imposes a heavy fine on the man who leaves his capital idle or who lends it to someone else at a fixed rate. But it does not increase the real profits of production. It will be readily agreed, from the above, that both inflation and deflation are undesirable, or at best merely futile.

We have not spoken at all of their worst practical feature, which is the dislocation they cause during the change in the price-level when every contract made in terms of money, from Trade Union rates of wages to fixed rates of interest on loans, is called in question and must often be revised.

It would seem then only necessary to decide on some definite sum, say ten thousand million pounds, and fix the total of the Nation's money at that amount, in order to achieve complete stability and an absolutely constant price-level. But, as we have seen, prices do not rise or fall merely as the result of increases or decreases in the amount of money in circulation. Even if the money-factor is kept constant, prices will still rise and fall as more or less goods are produced. For example, if more goods are produced and put on the market and there is the same amount of money to buy them with, prices must fall. *Therefore we may say that without the issue of more money, increased production—that is, increased national wealth—can only be achieved by a falling price-level.* We shall see the importance of this in a moment.



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### IV

We must now turn aside for a moment to consider what is called the Gold Standard. This is the monetary system to which this country has just returned. Now it might have been thought that a monetary system, whatever were the objects of those who controlled it, would issue more or less money, not without regard to the effect on the general level of prices. For, as we have seen, the only effect—though that is of the greatest importance—which the issuing of more or less money has (if it is an isolated measure), is the raising and lowering of the price-level. Thus it might pardonably be supposed, that while some people might consider it best to have a rising price-level, others to have a falling one, or others again might consider it best that the level should be constant, yet everyone would be agreed that the issuing of money should keep in view its one single practical effect—the moving of the price-level. But if anyone does suppose that, they are very much mistaken. We do not, in this free and happy country of ours, pay the very slightest attention to the price-level when we are issuing money. We do it simply and solely with a view to increasing or diminishing the gold reserve in the Bank of England. If we have a large heap of gold there we issue more money. If a small one, we issue less. We are just about to fix the legal proportion which our

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paper-money should bear to the gold in the Bank, so that quite automatically we shall decrease the amount of our money when we have less gold and increase it when we have more gold. Now it is easy to see that the amount of gold which we shall have in store will depend on the amount of gold that is wanted in the world and the amount that is dug up, *i.e. on the supply and demand of gold.* Therefore our gold hoard, and so the amount of money in circulation, will depend on factors outside our control. Indeed, it is precisely this characteristic of "uncontrollableness" which is considered to be the gold standard's greatest advantage. For under it no one (no "scheming politician") can either control the gold supply (though why it should not be "cornered" just as many other supplies have been "cornered" is never explained), or foretell the gold demand for currency or other purposes. Thus, on the one hand, a new gold-field may be discovered which will cause a glut of gold and so world inflation, or, on the other hand, a field may be worked out, or a new country may adopt gold as its currency, thus causing a world shortage of gold, and so world deflation. But as under the gold standard these disasters occur automatically, no one attempting either to produce or to prevent them, they are considered legitimate and even desirable. In the same way it might be argued, and doubtless often was argued some hundred years ago, that it would

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always be safest to travel on sailing ships since no man can " tamper with " the direction of the wind, while in the case of steamers an unholy alliance might be formed between the chief engineer and the Captain to take the vessel in some undesirable direction. Needless to say it will be quite impossible even to attempt to alleviate any of our economic ills—Poverty, Unemployment, what you will—by monetary regulation so long as we retain an *automatic* gold standard. But Mr. Maynard Keynes has exposed this remarkable piece of modern fetish worship so completely that it is impossible to believe that it can endure indefinitely.

### V

Up till now we have considered almost exclusively the monetary side of economics, working on the assumption that money, currency, credit, the medium of exchange by whatsoever name you call it, is the key which can unlock the secrets of our industrial economy. All this time we have been on ground well trodden by all modern thinkers on this subject.

The better known of modern writers on money (they would all be very shocked indeed by the crudity of some of the illustrations and arguments I have used), Mr. Keynes or Mr. Hawtrey or Mr. Lloyd, have stopped short at the point we have reached. But certain other writers have attempted to go a step further.

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Assuming the quantity theory, they have drawn some such conclusion as this. It is agreed that you must have £10 in your pocket in order to buy £10 worth of goods. On a national scale, therefore, it is possible to consume, and therefore to produce, only as many commodities as the nation has "purchasing power to obtain" (*i.e.* has money enough to buy). Therefore there can be no increase in the consumption of goods without a corresponding increase in the amount of money in circulation. This conclusion will have little practical importance in a completely static country in which each year's production of goods exactly replaces the wastage of capital assets and the consumption of commodities during that year. But, if an increase of scientific knowledge is achieved, or a better system of industrial production is introduced, then clearly everybody should be able to live so much the better, *i.e.* have a higher standard of life and so consume more. But, if the amount of money is left as before, how are people to buy the increased amount of goods that have been produced? In fact, they will not be able to do so, and hence will arise the whole trouble of "over-production and under-consumption," of poverty and destitution in the midst of a plethora of goods which manufacturers cannot sell. Therefore, these reformers declare, every increase in the productive capacity of a community must be accompanied, if it is to benefit people at all, by a corresponding increase in

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the total amount of money available in that community.

It was not difficult for orthodox economists to answer this argument: if the amount of money in a community remains stable and an increase of production puts more commodities into the market, then, on the quantity theory's own showing, prices begin to fall. The increased purchasing power, which is admittedly necessary to absorb the increased production, is given to the consumer, not by giving him more money, but by the natural fall in prices, *which makes his money go further*. For you can give a man increased purchasing power, greater command over commodities, just as effectively by making everything cheaper, as you can by giving him more money. Therefore there is no basis for the view that for a nation to get the benefit of any increased capacity to produce, it is necessary to issue a corresponding amount of new money.

And there the argument is sometimes left—with the reformers routed. But meanwhile the remarkable spectacle which they had noticed, of one set of men destitute because they can find no demand for the commodities they produce, and of another set destitute because they cannot get a sufficient supply of those very things, of manufacturers ruined because they cannot sell and of consumers starving because they cannot buy, goes on as before. So perhaps their argument merits a little further attention.

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Clearly no logical error can be found in the argument that you may just as well increase purchasing power by decreasing prices, as by increasing the amount of people's money.

Increased production should cheapen all prices so that the money people have should suffice for the larger number of goods which they should now be able to command. But let us examine for a moment what must actually occur when the community acquires the capacity for an increase in production. Recall for a moment what happened when we were considering the case of deflation. Then, it will be remembered, a reduction of the amount of money in circulation as against a stationary amount of commodities, led to a fall in the price-level. This, we saw, provided the producer with the strongest possible motive for leaving his money idle or lending it to someone else at a fixed rate of interest. He was discouraged from using it himself in production, because by the time he had finished his productive processes the fall in prices would have turned his expected profit into a loss (a loss at any rate as compared with what he would have had, if he had left his money idle). But as we noticed at the time, exactly the same result, *namely a fall in prices*, is produced if the amount of money in circulation is left stable, and the number of commodities increased. (In other words, if production is increased and no new money is issued.) Like causes produce like

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effects. Hence the resultant fall in the price-level will have just the same effect of stopping production as the fall caused by monetary deflation. *In other words, if the currency and credit system is left rigid, so soon as producers begin to translate into action their increased capacity to produce, prices must begin to fall.* But, as we saw, this fall will have the same effect as deflation, that is, it will at once tend to discourage production again. Therefore with a fixed amount of money, an increased capacity to produce may very well remain completely unrealised. Producers, as soon as they see prices drooping, begin to pull in their horns. Rings and associations may be formed so that different firms may work to an agreed maximum programme. But even without this producers will instinctively tend to keep down their output. (There are innumerable examples of this tendency; perhaps the best known is the great "Stevenson" rubber scheme by which growers reduced their output 25 per cent.; cf. also the present policy of the Lancashire cotton-spinners.) This point, as we shall see, is fundamental to most of the arguments in this book. If, therefore, we want to avoid this fall in prices whenever production might increase, we must devise some means of increasing the amount of money in circulation whenever we think we could produce more.

To put the case specifically: We must add a third condition for a sound monetary system to

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the two which Mr. Keynes lays down in his "Tract on Monetary Reform." He says that "a sound constructive scheme must provide for:—

"(i) A method of regulating the supply of currency and credit with a view to maintaining, so far as possible, the stability of the internal price-level, and

"(ii) A method for regulating the supply of foreign exchange so as to avoid purely temporary fluctuations, caused by seasonal or other influences, and not due to a lasting disturbance, in the relation between the internal and external price-level."

We have already seen the urgent need for (i). As to (ii), the stability of foreign exchange is more in the nature of a convenience (though to traders, of course, a very great convenience) than of an absolute necessity; and in any case the mechanism Mr. Keynes suggests for this purpose seems thoroughly adequate and does not conflict with our third condition, which we might perhaps express as follows:—

(iii) A method for regulating the emission of currency and credit whereby an increase in the national capacity to produce goods and services can be realised without an initial fall in the general price-level.

It must not be supposed that Mr. Keynes has overlooked this aspect of the monetary question. (It is possible, of course, to read his first condition as implying our third.) Probably he is fully alive to it, but deliberately eschews



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any suggestion that this particular difficulty in our economic system (*i.e.* that increased production must in the first instance cause a fall in prices) can be remedied by the regulation of money. For if once such a possibility is admitted we shall, as we shall presently see, be taken very far indeed along a road which Mr. Keynes might be unwilling to travel. We may find that the only way to draw out our latent capacity to produce is to create the money necessary to buy the goods; but that this entails safeguards and regulations which are inconsistent with our present economic system. But we anticipate.

What, then, has been submitted in this chapter? That money (which term includes all forms of credit and currency) is not now adequately performing its functions as a medium of exchange. That in order for it to do so it must fulfil the three conditions that have just now been laid down. In regard to the first two, certain rather obvious readjustments of our existing system should enable money to fulfil them. There remains the question of whether our monetary system, without any alteration in our system of ownership, can be made to fulfil the third condition.

Finally, there is the question of whether or not, even if all these three conditions had been fulfilled, we should indeed have found, in the regulation of currency and credit, the solution of the Problem of Poverty. In other words,

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given a perfect medium of exchange, would our present system of uncontrolled private enterprise (i) produce enough goods and services to go round and (ii) be able to distribute them in such a way that no one lacked at any rate the necessaries for a decent life? Or, as we Socialists have always believed, is there something inherently vicious in the system of unregulated private ownership which must always prevent its functioning either justly or efficiently? This is the question we must consider. But before we do so it seems necessary to set down as clearly and precisely as possible the reasons which have always made Socialists take this adverse view of our present industrial System of Private Ownership.<sup>1</sup>

<sup>1</sup> I refer, of course, to that system which friends and enemies alike seem to have agreed to misterm the "Capitalist System." All economic systems which employ modern methods of large-scale production, taking time to accomplish, must be "Capitalist" in the sense that large accumulations of wealth are necessary to them. The point at issue is who is to own and control this capital. Hence we ought to say the "System of Private Capitalism."

## CHAPTER III

### THE SOCIALIST THEORY

#### I

PUT at its very shortest, the modern Socialist case is as follows :—

“Capitalism” is that system in which the bulk of the capital of the country belongs to private persons. By *Capital* is meant the “instruments of production,” such as machinery, necessary buildings, tools, etc., and also the raw materials such as land, minerals and reserve stocks, without which the production of the things we all need cannot be undertaken. The persons who own these “instruments of production” are called Capitalists, those who do not own them are called workers. Socialists believe that these two categories of *Worker* and *Capitalist* are the fundamental divisions into which our modern community falls. In fact, their whole case rests on the belief that such a division exists. Friends of the present order of things sometimes deny that it does exist; they point to the fact that some workers own small amounts of industrial stock and that some Capitalists work and work extremely hard.

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And nobody pretends that a hard-and-fast line can be drawn across the community such that everybody will fall clearly on to one side of it or the other. But what do these exceptions of the stock-holding worker and the labouring Capitalist amount to? Because a working man has £100 invested in some industrial undertaking will it mean anything more than that he will be able to give himself a better burying when at last he is freed from the factory or the mine? Will it give him or his fellows any vestige of influence over the great joint Stock Company or Trust which controls in every vital particular, not only his own life but the lives of his whole dependent family? Or again, does the fact that some Capitalist, avid of power as well as wealth, strives maybe tirelessly, to extend the influence of some great combine, instead of quietly drawing his dividends and letting salaried managers run his affairs, mean that he and his live by work and not by *owning*?

It is miserable sophistry to suggest that such exceptions as these make it impossible, if we look at the community as a whole, to distinguish two broad divisions or classes; one which lives on a weekly wage, or monthly salary, which its members consume week by week (or month by month), and one which lives on an income derived from the ownership of the instruments of production. As a matter of fact, the whole of the manners and customs of these two classes are as distinct as those of two

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different races in opposite parts of the world; so that it is almost always possible to "place" at first sight an individual in one or other class, or indeed in one of their numerous sub-divisions.

But there is no need for any Socialist to find words with which to define the differences of class. The most famous of modern Conservative statesmen has done so once and for all. The passage on the two nations in Benjamin Disraeli's novel "Sybil" sums up the position as accurately to-day as it did eighty years ago.

" . . . ' Well, society may be in its infancy,' said Egremont, slightly smiling; ' but, say what you like, our Queen reigns over the greatest nation that ever existed.'

" ' Which nation?' asked the younger stranger, ' for she reigns over two.'

" The stranger paused; Egremont was silent, but looked inquiringly.

" ' Yes,' resumed the younger stranger after a moment's interval. ' Two nations; between whom there is no intercourse and no sympathy; who are as ignorant of each other's habits, thoughts, and feelings, as if they were dwellers in different zones, or inhabitants of different planets; who are formed by a different breeding, are fed by a different food, are ordered by different manners, and are not governed by the same laws.'

" ' You speak of——' said Egremont, hesitatingly.

" ' THE RICH and THE POOR.' "

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If once this major division of society into a class of Capitalists and a class of workers is admitted, we can turn our attention to its economic consequences. But perhaps it will be better to use here the term "Owner" instead of "Capitalist" and "Labourer" instead of "Worker," as being more conducive to clear thinking than the better-known terms, around which a certain warmth of emotional association has arisen.

The first point to notice is that these "owners" are the only people who can start making the things we all need, because they, and they alone, have the necessary instruments and raw material. They alone can hire labourers and set them to work on raw material, for they are the only people who have got either the essential tools or can command a stock of food, clothes, fuel, etc., to support the labourers while the new goods are being made. Therefore the whole control of production is in the hands of the owners. It is for them to say when it shall start, when it shall stop, and under what conditions it shall be undertaken. More, the fact that they own the "tools" with which the goods we need are made, gives the owners, under our law, the legal ownership of these goods themselves. It might be thought that a thing belongs to the man who has made it. By no means: it belongs to the man who owns the *instruments with which it has been made*,—even though he may have had absolutely nothing

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to do with making it himself. Thus we often say truly that some commodity, say cotton thread is "*made*" by some particular company. We do not mean by that that the shareholders of that company spend their working hours at the mill producing cotton thread. The thread is produced by the workers, by hand and brain, which the company employs. But they make it as hired "operatives," "hands," human machines, with the owners' instruments, *and when they have made it they do not own what they have made.* So in a sense the owners *do make* everything because they *own* everything when it has been made.

But now the question arises what are the owners to do with all these goods when they *have* made them. Clearly they cannot use them themselves, for to-day they make, not one or two of each of the hundreds of things they want, but thousands, or often millions, of some one thing. Thus one owner "makes" ten thousand bedsteads a year and another "makes" five million cakes of soap. But they can neither of them use, even if they aim at an elaborate standard of luxury, more than say ten bedsteads and five hundred cakes of soap a year. (For after all, though they are Capitalists, they are only men, with the same bodily wants as their fellows.) Therefore they will have to sell the things they make. But of course "selling" a thing, as economists are never tired of pointing out, is only exchanging

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it for something else. So it used to be assumed that what happened was that the bedstead-maker exchanged his bedsteads for the soap maker's soap. This would be all right, if almost everybody was making one or two bedsteads or one hundred or so pieces of soap (or, of course, any other useful commodity in the world). But it doesn't work in modern conditions, where just one or two people are making thousands of bedsteads and millions of cakes of soap, while millions of people are, in our sense of the word, "making" nothing at all, because they have not got any of the essential instruments of production to make them with.

For it would not be much use for the few "owners" to exchange their commodities amongst themselves; for the Association of Bedstead-Makers to exchange half their output of beds with half the Lever combine's output of soap. They would all still find themselves with an intolerable amount of sleeping and washing facilities. No, the modern large-scale producer must *sell* his commodities. That is, he must convert them into money which will give him command of *any* goods or services he needs—not just the ones which he or a neighbouring "owner" may produce in extravagant quantities. But this *selling* means that the goods he *makes* (the goods he has a legal right to *own* when they have been made by other people with his "instruments of production") must be bought by millions of people, because



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obviously a few people will not buy thousands of bedsteads which are no use to them, but thousands of people *will* buy one bedstead each, to sleep on. It follows therefore that, in the main, he must sell his products to the "labourers," the "non-owners," for the simple reason that there are far too few "owners" for him to sell to. We shall see, presently, how important a conclusion this is.

The above analysis applies to any form of society in which the means of production are owned by a limited number of private persons—any Capitalist society, as it is called. But we must now observe that such a society can take one of two forms: its members can either *compete or combine*. If it is competitive, there will be not one "owner" who makes bedsteads, but several, all trying to sell their products. If it has reached the stage of combination, it will be found that one owner in each field of production has eliminated the others and that there is but one maker of bedsteads, one soap-maker, one "owner" or "Capitalist" for each important product of industry. In this case, of course, there will be no competition between rival "owners" or Capitalists. It is necessary to follow out the possibilities of both these systems.

At the present time the Capitalist system in Great Britain seems to be still, on balance, competitive, but to be evolving steadily and with increasing momentum towards combination or,

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as it is usually called, "Trustification." For example, in the two examples we were using, bedstead-making and soap-making, the former is, I understand, almost entirely controlled by a ring of producers in Birmingham, while the latter is, of course, in the hands of the great Lever Combine.

### II

#### COMPETITIVE CAPITALISM

All Capitalistic societies have up till now been competitive, and most orthodox economists have always assumed that this is the only form that Capitalism could take. This, in view of modern tendencies, seems a very dangerous assumption, to say the least of it; but let us make it, for the moment at any rate. There will be, therefore, numerous "owners" and "Capitalists" all in the same line of business and all equipped with the "plant" necessary for making one particular article of consumption—one kind of commodity. Now, as we all know, the "owner" who manages to produce cheapest will undersell and so gradually exterminate the other producers. But other things being equal, which on the average and in the long run they will tend to be, the cost of the labour which the different "owners" employ will be a determining factor in the price at which they can sell their products. Therefore, the "owner" who pays the labourers he hires

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the lowest amount, short of a wage which makes them *physically or mentally inefficient*, will tend to undersell and so ruin the "owner" who pays higher wages.

Of course, it must be admitted that a good deal has been conceded when we say "short of a wage which makes them physically or mentally inefficient." In many cases this will mean a wage greatly in excess of one which merely satisfies elementary needs. A highly skilled brain-worker cannot possibly give of his best unless, for instance, he has at least a month's holiday in the year. Hence it will "pay," as we put it, his employers to give it him. And in these cases we do certainly find that a wage, such that the employee can live a reasonably civilised life, is paid. We may define the wage which will in the long run tend to be paid as "one, any reduction from which would impair the efficiency of the 'hands' (or 'brains') to such an extent that the resulting loss of production would more than counterbalance the gain in a reduced wages bill." This may be a comparatively high wage, or a very low one, according to the character of the work done. But this level, which we might call "the market price of labour," will not often be exceeded with impunity by any employer. When the term subsistence level is used, it must always be understood in this sense.

We say that the other factors in the cost of production tend in the long run to be equal. For

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some time some humane employers may be able to pay wages above the minimum, the "subsistence level," and yet survive the competition of his rivals by means of superior machinery, better organisation, superior selling methods—what you will. But theoretically there is no reason to suppose that another "owner" will not adopt all these more efficient methods and *add to them* a lower rate of pay for his employees. Hence it can be said that under Competitive Capitalism employers of labour will be forced by an unrelenting economic pressure to pay the lowest wages compatible with efficiency, on pain of ruin by a less scrupulous rival. And no amount of benevolence or humanity on the part of individual employers can mitigate the severity of this pressure.

The most usual objection to this "law" is that, while it may be true of Capitalism when the labour market is overcrowded, it would not be true when labourers were scarce. Then, it is claimed, rival employers would compete with each other, not so much in an attempt to cheapen their product, as in an attempt to attract to *their* plant, *their* instruments of production, what limited amount of labour was available, by offering higher wages than their rivals. This would indeed be a remarkable phenomenon.

We may remark that, as the labour market is at the moment overcrowded by one million and a quarter unemployed, has always been

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overcrowded and shows not the slightest tendency to become less so, this objection is of a distinctly academic character. But, if ever Competitive Capitalism could operate in this way, surely it must have done so at the beginning of the last century. At that time a comparatively small population was suddenly given new and almost magical powers of mechanical production. England became, as we are so often told, "the workshop of the world." World-demand for our goods appeared absolutely limitless. On the other hand, the supply of labour was scarcely a quarter of what it is now. Surely it must have been then, if ever, that the different "owners" of the instruments of production bid feverishly against each other for the limited supply of labour? Wages, on this theory, must have risen to fantastic heights! The manual worker must have been master of the situation! Well, we all know the historical facts, as Disraeli portrayed them at the time, or as Mr. and Mrs. Hammond have recorded them for us in "The Town Labourer." Never in any civilised community have wages been so low or conditions of life for the propertyless worker so unimaginably degraded. It is astonishing to find a theory, plausible in itself, so grotesquely at variance with the facts. The trouble was, of course, that the English employers early found a more excellent way of obtaining labour than by bidding for it against each other. They simply drafted men, women

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and children out of the workhouses into the indescribable horror of the industrial towns of that time, where they bred like animals and soon filled up any deficiencies in "the labour market." It was said of the Lancashire mill owners that they used up nine generations of "operatives" in the space of one generation of men. If those nineteenth-century conditions of illimitable demand for goods and limited supply of labour did not cause any rise in wages, what conceivable hope is there that to-day, with our million unemployed and our lost markets, wages will be forced above a subsistence level by competition for labour amongst employers?

Another and more practical objection to the so-called "Iron Law" of wages is that modern Trade Unions are strong enough to prevent employers cutting wages below certain recognised rates, well above anything that can be called a subsistence level. This is to some extent true of trades such as the railways, where foreign competition is not felt. And, in fact, some Unions may have succeeded in keeping wages just above the subsistence level, in such trades. But in the case of trades which must compete in the world market with world producers a different state of things is apparent. (Two convenient new terms have lately been invented to denote these two kinds of trades. The first are called "sheltered trades," the second "unsheltered trades.")

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The Trade Unions may be just as strong in the unsheltered as in the sheltered trades. But what can their leaders answer when the employers come to them with some such statement as this: "We agree entirely that your wages are only barely sufficient for a decent life. We assure you that the last thing in the world we should wish to do is to cut them down further. Indeed, if it lay in our power to do so we would willingly raise them. But we ask you to look the realities of the situation in the face. Our foreign competitors are selling the same product as ourselves at a twenty-five per cent. lower price. Why is this? Because their cost of production is twenty-five per cent. cheaper. What is the reason for this? It is simply because their men work longer hours at lower wages. The German workman, for instance, is working ten hours as against your eight for twenty per cent. lower wages. We are very sorry, but there is nothing for us to do but to ask you to accept a lower wage and longer hours, in order to retain our share in the world market." <sup>1</sup> Let us suppose that the employer is wise enough to let his men see all the facts and figures of the case and that they prove to be exactly as he has stated them. What can the men answer? What can the employer, however enlightened and humane, do, except force down wages or close his works?

<sup>1</sup> Cf. The Mine Owner's Case in the Mining Dispute, August 1925.

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Let us assume, then, that the British Trades Unionists, borne down by the weight of this apparently unanswerable case, accept the reduction in wages. For the moment the situation is saved. British goods can again compete successfully in the world market with German goods. But is that the end of the story? Very soon a scene very similar to the one we have described, which has happened (and is happening to-day), say, in Birmingham or in Newcastle, will be reproduced at Bremen or at Düsseldorf. The German employer will come to his men with exactly the same case. He will point to the recent British reduction in wages and increase in hours. He will show that as a result British goods are undercutting German goods in the world market. His case will seem as unanswerable to the German Trade Unionists as did the British employer's to his men. And so German wages will be forced down. But then we shall be back at exactly the point at which we started. German goods will again be undercutting us in the world market. What can the British employer do save once more reluctantly ask his men to accept a lower wage? How can the British Trade Union leaders refuse if they know that their refusal will really mean the closing down of the works? And will not all the same arguments again apply with equal force to the German masters and men?

At the present moment (summer, 1925) we see these forces at work in practice. The revival



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of German industry is beginning to force British employers of labour to ask their men to accept a reduction of wages. Already an intensive propaganda about "Lost Contracts," etc., etc., has been started in the Press. *The truth is that there can be no limit to the forcing down of wages by international competition until the subsistence level is once again reached.*

Nor, as a matter of fact, does the pressure of Foreign competition upon wages make itself felt only in "unsheltered" trades. The Capitalist Press is quick, in this connexion at any rate, to point out that "Industry is essentially one. That a high cost of production, due to high wages in some sheltered trade, affects adversely the cost of production in unsheltered trades and makes them unable to compete successfully in the world market." Thus the high wages paid to railwaymen must mean, it is said, high freight rates. But this means that coal and raw materials will be more expensive for, say, shipbuilders. This, in turn, must mean that we shall not get shipbuilding orders in the world market. Thus, in order to cheapen our production in shipbuilding, it is necessary to cut down, not only shipwrights', but also railwaymen's wages. The same argument applies to all wages in unsheltered trades since they all come out of the common stock and must all ultimately increase the cost of production in unsheltered trades.

*It is clear, then, that unaided Trade Union*

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*action on a national basis cannot in the end keep up wages in either "unsheltered" or "sheltered" trades.* And so we may return to the original statement—Competitive Capitalism, whether nationally or internationally, will always exert a pressure, irresistible in the long run, on employers of labour, forcing them to pay the lowest possible wages compatible with the efficiency of their workers.

But think what this means. We saw just now that the "owners"—the people to whom the finished products of industry belong—have in the main to sell these products to the labourers, that is, to the people who do not own any of the instruments of production. But we have just discovered that when different "owners" in the world are competing with each other, they can none of them pay their labourers more money than will allow them to buy what is just enough to keep them going as efficient "hands." But these owners can turn out in their factories many more commodities than are needed to provide this subsistence level of existence for the labourers. The labourers, however, cannot conceivably buy these "extra" commodities for the simple reason that they cannot be paid enough money to buy them with. And hence arises the great problem of "surplus production."

With one hand the Capitalist system gives us the means to create undreamt of quantities of the things we all need, but with the other it has

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to withhold from ninety per cent. of the population the "purchasing power" needed to secure more than the barest minimum of them. And then our Captains of Industry wonder why it seems impossible to dispose of their products at a profit!

If Capitalism was working in a limited self-contained community it is obvious that no solution could be found to this dilemma. But, for the present at any rate, this is not the case. The whole world has never yet been one large, undivided, capitalistically organised workshop. It has been rather a great sea of as yet undeveloped natural resources and unorganised populations, studded with small Capitalist islands, pouring out quantities of industrial products of all sorts. For the reasons we have given, the owners of the means of production, to whom all these products belonged, could not sell them within these industrial islands. We have seen that their necessity was always to turn their million bedsteads, or bars of soap, or what you will, into fluid money. Therefore their only hope lay in the *export* of their products. They must "find markets" for British industrial products. In other words, they had to find populations who were not living under the Capitalist system and who had enough purchasing power to buy their goods, that is, turn the "bedsteads" or the "soap" they did not want into the money which they did want. It may be asked what they could do with this

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increased purchasing power except buy more "bedsteads" or more "soap"—more of the very commodities which they and their friends produced (and to get these there was obviously no necessity to export). But there is another use to which money can be put, as well as the purchase of commodities. And that is the purchase of other people's services. The "owners" of the instruments of production could (and can) convert their *surplus of products* (above what they can sell in their own community) into purchasing power, by exporting them to a non-capitalistic country. With this purchasing power they will buy the services of persons who do not own any of the instruments of production. Hence, amongst others, the remarkable phenomenon of "domestic service" in which a whole section of the population spend their entire life ministering to the material wants of another section and only attending to their own in their spare time.

But to-day this arrangement is rapidly becoming impracticable. The Capitalists' islands in the great unexploited ocean of "Non-Capitalism" are becoming ever more numerous and more extensive. Indeed, it might be truer to-day to say that the world was a great Capitalistic, industrialised continent in which there were still lakes and inland seas of unexploited areas. And it is for the right to exploit these last remaining markets that the great Capitalist countries dispute so furiously. The "race for

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markets" had become even before the war the dominating motive of national policy. The great Capitalist States were like shipwrecked mariners on a desert island watching their store of water (markets) slowly decreasing and eyeing each other suspiciously, knowing that sooner or later it must come to a fight to the death for the last drop. Thus it is *indirectly* true to say that Capitalism is an underlying, economic cause of modern war, the running irritation which starts the all too easily aroused passions and jealousies, which are its immediate cause. It is this special feature of Capitalism—this necessity to export owing to *an inability to distribute enough purchasing power to provide an effective home market for the goods it produces*—which keeps the world in a state of bellicose disorder. Socialists have always stressed, and rightly, the essential disorderliness and piracy of Capitalism, and have said that it can never become the permanent economic system of the world because it must always destroy itself—as unexploited territories get rarer and rarer—by producing more and more catastrophic wars.

But there is another and less well-known difficulty latent in the Capitalist system of export.<sup>1</sup> The object is to convert the surplus

<sup>1</sup> After a time, it should be noted, the Capitalist finds it more convenient not only to export his finished products but to export his capital itself—that is, his factory, plant, machinery, instruments of production, and to produce in the country in which he wishes to sell.

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of production into cash or credit which can give the "owners" command of the services of non-owners, to do the more unpleasant or tiresome tasks of life for them. Thus they convert their *wealth* of surplus commodities into *power* over the lives of others. To this end they wish to be paid in money or credit rather than by an exchange of commodities. But this is, of course, in the long run impossible. Even unexploited countries can really only pay for their imports by the export of their own products. But that is not what the "owners" want. They will then have the same difficulty in disposing of the commodities with which they have been paid, as of those which they themselves produced. In order to get over this difficulty a most ingenious dodge has been evolved. It was illuminated by an entertaining passage in Parliament during the *régime* of the late Labour Government. *The Times* report is worth quoting;<sup>1</sup> (it was at Question time): "Mr. MACDONALD, Prime Minister (Aberavon), replying to Mr. A. M. Samuel (Farnham, U.), said: His Majesty's Embassy at Rio de Janeiro have made frequent verbal representations to the Brazilian Government with regard to their refusal to carry out their undertaking to allow the Great Western Railway Company of Brazil to raise its tariffs, and have received the reply that the Brazilian Government admit that the

<sup>1</sup> It was Mr. W. O. Field who first called my attention to this dialogue.

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raising of the tariffs is necessary. His Majesty's Ambassador has, however, been unable to induce the Brazilian Government to take the necessary steps in the matter. I may add that His Majesty's Ambassador has pointed out to the Brazilian Government the bad effect which must be produced on Brazilian credit by the treatment of this company.

"Mr. SAMUEL.—May I thank the Right Honourable Gentleman for his reply, and ask him if he is aware—as he must be—that *much of our export trade depends on the ability of foreign countries to raise loans here for paying for the goods, and that, if this abuse of British Capital continues, it will injure our foreign trade very much?* Will the Right Honourable Gentleman take steps to see that British capital is not abused abroad?"<sup>1</sup>

At this point the Speaker intervened, and high time too, for the Tory business-man had come within an ace of admitting to Mr. Macdonald one of the greatest paradoxes of our economic system. What Mr. Samuel's supplementary question means is this. We lend our money to foreign countries in order that they should hand it back to us in exchange for our own goods. In other words, once again the Capitalists'

<sup>1</sup> It is amusing to note that just a year later Mr. Samuel finds himself a member of a Government which has permitted the Bank of England to prohibit entirely the floating of foreign loans in this country. His scruples for our export trade must have suddenly vanished!

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object is to convert his surplus goods, not by exchanges into other goods, which he does not want, but into power—power over the lives of other individuals or other nations which he does want. For the power, often the armed power, of the lender soon follows the loan, and the borrower finds that his freedom of action has quietly disappeared. But, like most Capitalist shifts, this one of lending foreign countries the money with which to buy our surplus production, can only avert the evil day when the "owner," the Capitalist, will have to take his payment for his goods in other goods. And in the last resort the whole export plan of Competitive Capitalism proves only a palliation of its fatal defect, which is that *it can never provide the demand for the goods it produces*. For its own competition prevents it from distributing enough purchasing power to those who do not own any of the instruments of production to enable them to buy anything above bare necessities. To put the matter theoretically, exchanges are so hindered by a mal-distribution of wealth that the products of industry cannot be distributed. All this applies only to Competitive Capitalism.

### III

#### THE CAPITALISM OF COMBINATION

It is of course open to Socialists to accept the official view of Capitalism—namely, that



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it is essentially competitive and can never become an organisation of Trusts and Rings, each controlling one article of consumption. But recent developments in this country, in the United States, and above all in Germany, have taken Capitalism so far along the road of combination that it seems necessary to consider seriously the possibility of "a non-competitive system of the private ownership of the instruments of production." It can immediately be seen that under combination the crucial difficulty of the competitive system, namely, the tendency to depress wages to the subsistence level and so drain away purchasing power from the market, is surmounted. If there is no rival firm competing with an employer he can, if he likes, pay his men much above a subsistence wage. And in sheltered trades, which have become trustified, it is sometimes found that intelligent employers are, in order to get good work and avoid labour troubles, paying wages above the market price of labour (after all, it need cost them nothing to do so, for the extra cost can be quietly passed on to the consumer in increased price). But in "unsheltered" trades an Employers' Federation or Trust encounters exactly the same difficulty as do the great Trade Unions. They both have to meet a foreign competition which they cannot control. The National Trust has to face the combinations or the trusts of other nations in the world markets, and to meet that competition it has to force

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down wages; this in time forces down the wages of the foreign trust, and the old process is started again, till the worker is soon back again on subsistence level without the purchasing power to acquire the goods his master produces (or rather, which he produces, but his master owns).

In a word, in order to be really effective, trustification would have to be on an international, not on a national scale. Such a monstrosity is hardly conceivable. (Although in the case of oil there is actually an approximation to it, for the competition between the three great companies is by no means ruthless.) If it controlled some essential commodity, it would have the whole world at its mercy. It would be equally irresponsible and omnipotent. The truth is that although by trustification Capitalism can overcome its most fatal defect, it does so at the cost of dropping its mask of respectability and of appearing openly as the naked tyranny it is. For, though when trustified it may treat its workers—the producers—better than under the competitive system, it then has the consumer obviously and patently at its mercy, since it can raise prices to any extent it desires. And for some reason the world is far more tender to the rights of the consumer than to those of the producer. (They are, in the last resort, of course, the same people seen from opposite sides.) For instance, that able defender of individualism, Lord Hugh Cecil, writes in his little book "Conservatism," p. 144 :

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"It is certainly true that the practical alternative before us is competition (at any rate among our own countrymen), or the control of the State, and that any effort to limit competition in the interests of any group of private persons, or anything less than the State, would be speedily judged to be intolerable." Lord Hugh Cecil certainly goes too far. "Efforts to limit competition in the interests of a group of private persons" have been successfully made, are being made, will be made increasingly, and have not been "judged intolerable."<sup>1</sup> But in the main he is probably right. Democracy has gone too far, at any rate in Great Britain, to allow non-competitive Capitalism to develop into a regularised system. Hence in spite of its great advantages, we must rule it out as a solution of the difficulties of the system of the

<sup>1</sup> See the "Report of the Committee of Trusts" (Ministry of Reconstruction), 1919. This official committee found that "in the modern industrial and commercial world competition, which indeed was never wholly 'free,' is becoming less free with each passing year. In very many branches of trade and industry, business concerns, where inter-competition is conventionally supposed to maintain prices at a competitive level, have, in fact, working arrangements of one kind or another which prevent competition. Again, in some branches of trade, amalgamations of erstwhile rival firms have taken place with the result that in some cases so large a proportion of the whole trade is in the hands of one firm, or financially interwoven group of firms, that an effective monopoly is obtained."

See also Mr. and Mrs. Sidney Webb's "Decay of Capitalist Civilisation" for further evidence.

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private ownership of the means of production. Thus we are driven back to Competitive Capitalism, since, in spite of its drawbacks, it does give some security to the consumer, and some hope that his interests will find expression in the programme of production which is undertaken.

### IV

We must now consider this system from another angle. We have seen its cardinal defect—that it cannot distribute enough purchasing power to persons who do not own any of the instruments of production to enable them to buy the products of these instruments. We saw the economic consequences of this defect in, first, the search for markets, then, economic Imperialism and, finally, war. It is now time to consider its moral—or as it is fashionable to say to-day—its psychological consequences. The “owner,” we find, can offer, under Competitive Capitalism, nothing better than a “living wage,” *i.e.* a subsistence wage, to his workers. If he does so, he is promptly ruined by a rival, either in his own country or elsewhere, who is not so “unbusinesslike.” But men will only work for a subsistence wage, if they must starve when they do not. They will not spend their whole working lives in the squalid monotony of a modern factory if they can keep themselves and their families in any other way. For, be it remembered, the “owners,” however humane,

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cannot in the long run offer their men any *inducements* to work. They cannot give them shorter hours, better working conditions, etc., etc., for exactly the same reason that they cannot give them higher wages—because if they do so they will be cut out by a more “businesslike” rival, either at home or abroad. (This is why employers have to be compelled to do so by “Factory Acts” and Trade Boards, which prevent the less scrupulous from under-cutting the more humane.) Thus we come to the irresistible conclusion that the owners must be in a position to *compel* the labourers to operate their instruments of production *by seeing to it that they starve if they do not.*

The whole history of the rise of the Capitalist system shows that this is indeed the case. In 1834, the new class of “Capitalists,” who had just taken the control of Parliament from the old land-owning aristocracy, “reformed” the Poor Law. Up till that time it had always been held that the community must not let any man starve. It was under a moral obligation to find him work to do if he could find none for himself. The new manufacturers and their friends, however, soon found that this made Capitalism impossible. If a man had a right to go to his parish and demand support in return for doing manual work, he would obviously not consent to spend his life in the nightmare conditions of a contemporary Lancashire cotton-mill in return for the barest subsistence. Thus the

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reformers of the poor had to find some way of forcing the labourer back to the factory. Their best way of all would have been, of course, simply to abolish the whole principle that there was an obligation upon the community to keep a man alive, and to allow those who would not or could not find work in the factories to die of starvation. But even at that date this was more than public opinion would allow. So the reformers set themselves to the grim task of finding a system of relief which, while still keeping men alive, would be always more horrible than the worst conceivable conditions in mine or factory. From what we know of those factories and mines, the task was no light one. But the reformers went about it in a truly scientific spirit. Anyone who knew, or knows, the history of the English workhouse system will testify to their success. They proudly announced to the world that they had produced a system which made the lot of the unemployed man who sought relief "less eligible" than that of the lowest grade of sweated worker. In other words, they built all over England great prisons which they called workhouses ("pleasantly so named because work cannot be done in them," as Carlyle remarks), into which was thrown anyone who had dared to refuse employment on any terms which the employers offered him, or, what was more usual, *had been refused* employment on any terms at all. And yet the men who made so vile a law as this were

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upright and pious Englishmen.<sup>1</sup> Probably they failed to see, as even to-day nearly all persons belonging to the propertied classes fail to see, that economic compulsion is just as real a form of compulsion, just as great a tyranny, as legal or physical compulsion. If, for example, those Poor Law reformers had been asked to make a law decreeing that any person who could not obtain employment in a factory should be at once taken, with all his dependents, and thrown into penal servitude, they would have recoiled in the utmost horror. But they failed to see that for the propertyless man this was exactly what their law amounted to—except that the prisons were called workhouses and that the *régime* was designed not to punish, but simply to be “less eligible” than any form of life outside. It is this remorseless pressure of economic necessity on the propertyless man which the men of property never have understood and never can understand. It is this lack of comprehension which makes the phrase I used above—“workhouses into which was thrown anyone who dared to refuse employment”—seem to the upper classes meaningless. Of course there was no physical compulsion on the worker to enter the workhouse. There was

<sup>1</sup> The chief author of this very law was, as a matter of fact, the present writer's great-grandfather; and from all that is known of him he appears to have been, not the inhuman devil which his works would imply, but a painfully conscientious, duty-loving, Victorian Englishman.

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merely the little fact that he died of starvation if he did not. But after all, by what other, or by what more powerful means, can one set of men compel another to do anything than by the threat of death if they do not? It is this fundamental lack of comprehension which makes the rich regard terms like "wage slaves" as the wicked inventions of Socialist agitators. (It must be this inability to comprehend a life of anything but economic security which makes the rich unable to see the irony of that saying of Anatole France: "The Law, in its majestic equality, forbids the rich as well as the poor to sleep under bridges, to beg in the streets, and to steal bread.")

The Capitalist system is, then, founded upon forced labour. The fact that its workers are punished, not by hanging or imprisonment, but by starvation or the workhouse, raises them but one degree above the status of the slave.

Or rather it would be truer to say that the Capitalist system has always up till now been founded on forced labour; for a fundamental and far-reaching change has just occurred. All through the nineteenth century public opinion was growing both more sensitive and more powerful; at last the War provided the necessary impetus to jolt people out of their ruts of habit, and when at the end of it the usual acute industrial depression occurred, the Government in power found itself compelled to provide for the propertyless man, not by sending him to



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prison in the workhouse, but by direct payment to him, not only by means of Unemployment Insurance ("the dole"), but by the very things which the Poor Law reformers had abolished, *i.e.* outdoor relief without "tests," and even the "Allowance System" of supplements to wages for especially sweated workers.<sup>1</sup> Here, large and glaring as an electric sign in Piccadilly Circus, is the writing on the wall for Capitalism. It is true that up till now the rates of relief have on the whole been kept low enough to make men prefer employment to their receipt. And, as we have already shown from impartial evidence, the labour exchanges have refused relief if it could be shown that a man could get employment at a living wage. At any rate, the result has not so far been sufficient to cause any shortage in the labour market. Indeed, that market is extremely overcrowded. But in some places, where labour has got control of the "Guardians" and the local Government bodies generally, things have gone much further. Applying their full policy of "work or maintenance," allowances, often considerably in excess of the wages paid to men in employment, have been made. This has happened, notably in Poplar, and has come to be known as "Poplarism." Mr. Macdonald says in the preface to the new edition of his admirable book, "Socialism, Critical and

<sup>1</sup> For a detailed account of all this, see again "The Decay of Capitalist Civilisation," Mr. and Mrs. Sidney Webb (Allen and Unwin).

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Constructive," that "Poplarism is not Socialism." He is of course absolutely right, but, as he has been one of the first to point out, though "Poplarism" is not SOCIALISM, *it is the end of Capitalism*. It means that the principle of forced labour—the economic servitude of man to man—has become, or is becoming, intolerable to the consciences of mankind, just as in the past legal and physical slavery became intolerable. And this means that the system of private Capitalism, which is dependent on such forced labour, has overstayed its welcome. Sometimes blindly, sometimes consciously, as when led by Mr. George Lansbury and other men of his type, the workers are destroying the very basis of Capitalism by putting forward their morally unanswerable case for "work or maintenance." The Conservatives, who are for ever pointing out the evils and dangers of the "dole," are perfectly right from their own point of view. On the assumption that Capitalism is the only possible system under which the work of the world can be done, "the way to national ruin" certainly does lie through "Poplarism." But for those of us who believe that there is another and perfectly practical order of society which can be substituted for Capitalism, "Poplarism" is but a sign of the necessity for the substitution of the new for the old, without delay. At any rate it is idle for Conservatives to suppose that we are ever going back to the Penal Poor Law. Yet they are for ever telling

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us that the present system of "doles" and "allowances" is in fact making production impossible. Hence, whether we like it or no, we must press on with the great experiment of transforming industry—of substituting new motives for old in order to work the industrial machine, of giving men *inducements* to work instead of penal servitude for not working, of *leading* men instead of *driving* them.

This is, in short, the classical Marxian case against the private ownership of the means of production. It submits that Capitalism is in a blind alley. Whichever way it turns, there is no escape: if to competition, then it cannot give the people who do not own any of the means of production enough money to buy the things it makes. Thus it is led to the race for markets, economic Imperialism, war. If it turns to combination then it must throw away its one great claim to respectability—the safe-guarding of the consumers' interests by the "free play of economic forces." It must become a frank and open tyranny, condemned alike by Lord Hugh Cecil and Karl Marx. But while Capitalism hesitates before this dilemma, the ground is being cut from under its feet by a change in the public conscience which will no longer tolerate economically forced labour, which is the condition of its very existence.

## CHAPTER IV

### THE PROBLEM OF DEMAND

#### I

SUCH is the Socialist case against Capitalism. The trouble is that it is *too* strong, *too* convincing. When Karl Marx first set it forth some sixty years ago, it seemed a trumpet call to the world. But after all it must be admitted that the walls of Capitalism remained unaccountably intact, before the blast of the Socialist Joshua. Yesterday, in the earthquake of world war, they were reeling to their foundations, but in the end only one comparatively small section of them collapsed. And that part, the Russian, had never been very well built; while everywhere else they stand, seemingly as mighty and as unscalable as ever. Thus have Socialists been taught that they must not rely on the automatic pressure of the great economic forces which Marx revealed. We may blow, like Joshua, the triumphant trumpet call of destructive analysis. But a hundred, a thousand, exceptions, special cases, subsidiary factors, new scientific discoveries, eccentricities of human conduct, which had not been taken into account, may, and indeed have, put off the day of collapse.

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In particular has it been found that the so-called "Iron Law" of wages which we described in the last chapter, has an only partial application to the existing economic system. Instances have occurred in which employers have persistently paid wages above the "subsistence level" and yet have not been undercut by more grasping rivals. A much-quoted case in point is that of the great Ford Motor Company of Detroit in the United States. The genius of Henry Ford has unquestionably enabled him to pay far higher wages than his rivals and yet to undersell them. But genius knows no laws, economic or otherwise.

According to Marxian theory, what ought to happen is that another Ford, equally efficient but less generous, should arrive on the scene and produce a motor-car which would undercut Henry Ford's famous product by paying the workers much lower wages. But we can well understand why—in modern conditions under which the establishment of a factory capable of competing with the Ford works requires the capital resources of a first-class state—he is slow in coming. But this does not prove that he will not come at last. Mr. Ford himself is now an old man, and after his death it is unlikely that his great enterprise will be carried on indefinitely in his own remarkable manner. It is very possible that his successors, either for fear of a rising competitor, or out of cupidity, will be unable to resist the temptation gradually

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to force down wages to the "market price" again. And so at last it may be the shade of Karl Marx, and not of Henry Ford, which will linger over the chimneys and workshops of Detroit.

But all this may be in the comparatively distant future, and in the meanwhile we have the indubitable phenomenon of a Capitalist firm paying with impunity wages greatly in excess of the subsistence level. This fact does not indeed mean that the whole of Marxian criticism must go by the board. But it does mean that the pressure of the economic forces which he revealed acts but slowly and sometimes uncertainly.

"In the long run" those forces might well lead to the results he foretold, indeed, they have in a good many cases already done so. But as Mr. Keynes somewhere remarks, "in the long run" we shall all be dead. It is the comparatively short run that matters to us; and the Socialist has learnt, or is learning, that he must not sit back with folded hands, as he has been perhaps somewhat apt to do, waiting for the long-expected fall of Capitalism. He must not, in the words of the foremost living Marxist, "make Marxism an excuse for doing nothing." At least, he must not do so if he is to do anything for the men and women whose need is bitter. For if Capitalism has not yet produced all the difficulties and disasters that Marx predicted for it, it has produced, from its very first hour

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to its very latest, one all too characteristic product, namely, a vast mass of people living in profound poverty. Socialists must, therefore, while always bearing in mind the Marxian analysis as a thread which can lead them through the labyrinth, come more closely to grips with the intricacies of private ownership.

### II

Let us go back for the moment to Chapter II, to the analysis of money. In the end we were brought up by a stone wall. Whenever an increase in production took place, it caused—since the amount of money in circulation was left stable—a fall in the price-level. But this, in turn, checked the increase in production. Thus, with a definite amount of money available, production could only increase, if at all, with the greatest difficulty.

But when in Chapter III we had stated the Socialist analysis of Capitalism, we were faced with a very similar difficulty. We had to reject the "Capitalism of combination" as impracticable, at any rate in a democracy. We were therefore left with Competitive Capitalism. But here we found exactly the same problem. There was no difficulty about production. Here again it was demand that failed. There was no way of distributing enough money to the "non-owners" to enable them to buy enough commodities to keep production going. It was

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therefore *consumption* that failed and so checked *production*. But surely this is only another way of saying what we were forced to say at the end of Chapter II, *i.e.* that the demand for goods failed long before people's "real" needs were satisfied, so that production could never increase to its real capacity.

Thus we are driven to the conclusion that whether you analyse our economic system in terms of the medium of exchange or whether you analyse it, as is more usual, in terms of goods, you come up against the same phenomenon — *the failure of demand*.

But we discovered in Chapter I that this very word "demand" meant two flatly contradictory things, according to whether it was used by a producer or a consumer. Hence, as we now find that it is the key word of economics, it is essential that we should analyse it. And we are now in a position to do so. We said that, looked at from the consumer's standpoint, demand was something which had never yet been anything like satisfied; but that, looked at from the producer's point of view, it was something which was stuffed to the very brim. Now we have come to the conclusion that, whichever way you look at it, the most striking thing about our economic system is the way in which the "demand" for commodities falls off before people's real needs have been satisfied.

Obviously, then, what is needed are two new expressions, one to denote the meaning of the



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word "*demand*" from the consumer's standpoint, *i.e.* people's actual needs, and the other to give the meaning of the word from the producer's point of view, *i.e.* the amount of goods that people buy. The best and most usual term for the first meaning is "real demand." People's real demands are what they really want. A starving man with empty pockets "demands" a loaf of bread; this is his "real demand." But when the millers and the bakers are estimating "the demand" for their product they will not take this man's wants into consideration, for the simple reason that he is not able to buy any bread, since he has no money. Therefore, from their point of view he has no "demand" for bread, because he cannot "make effective" his needs. Thus the most usual word for this kind of demand, which is the only kind that the producer can take into account, is "effective demand."

We shall be able to get along fairly well with these two terms, "real demand" meaning people's needs, and "effective demand" meaning those of their needs which they have the money to satisfy. But a further division of effective demand is possible. A man's effective demand is equal, we said, to those of his needs which he has the money to satisfy. But this assumes that everyone will spend all the money they have in buying the things they want. This, in the case of the rich, is by no means always the case. Many rich men do not in fact spend one-tenth

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of their income. Therefore their effective demand is only one-tenth of the amount of money (or more scientifically the amount of purchasing power) which they have got. Thus, there is a large margin which we can only call "latent effective demand." It is not "real demand," for it represents no actual needs. For the same reason it is not "effective demand," since, as it represents no actual needs, it cannot represent that portion of actual needs which the consumer has the money to satisfy. Thus, although it does represent purchasing power, it does not absorb commodities and therefore exercises no influence towards increased production.

Therefore we must say that "demand" is of three kinds: real demand; effective demand; latent effective demand. With these three terms we can continue our examination of the phenomenon of Poverty in the midst of potential Plenty. We were conducting it along two lines of thought, namely, the "Currency" theory of an ill-regulated Medium of Exchange and the Socialist analysis of Capitalism; we found that these two lines of thought intersected on the contradictory meaning of the word "demand." We have now analysed this word into its three component parts. And we find that the problem we have been dealing with can now be stated as "the failure of effective demand before the satisfaction of real demand." Thus, we have discovered that whichever way you analyse it,

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the trouble with our economic system *is not an inability to produce but an inability to consume*. It is the problem of underconsumption. Or as we may now call it, "the problem of Effective Demand."<sup>1</sup>

But why does effective demand fail? Why cannot we satisfy people's needs when we have all the productive capacity to do so? In both theories we have diagnosed this failure of effective demand as the point at which our present system breaks down. But by this we have only pushed the issue one stage back. The question remains—can this failure be remedied by a more intelligent regulation of the medium of exchange (*i.e.* money); so that exchanges between producers are never prevented or hindered by the lack of it, or production checked by a fall in the value of commodities in terms of money (*i.e.* a fall in prices)—in a word by a perfect fulfilment by the monetary system of the three functions which we required of it at the end of Chapter II?

Or, on the other hand, can this failure in

<sup>1</sup> It is arguable that much of the opposition which has arisen to the theories of Karl Marx is due to that economist's tactlessness in describing the phenomena we have noticed, as those of "Over-production" and not as we now say of "Under-consumption." The present writer, for instance, was brought up to consider Marx a half-idiot who believed that the general prosperity could be increased by a decrease in production, and can well remember his surprise in discovering that Marx's great complaint against our present social system was that it could not distribute for consumption even the miserably small amount of commodities which it did produce.

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effective demand be remedied only by a redistribution of ownership, so that a small, if heterogeneous, class who now own the instruments essential to production, are no longer thereby entitled to the ownership of practically the entire output of goods and services produced by the community? Is it, in fact, this maldistribution of ownership which causes so great a *displacement of demand* as to render the real demand of eight-ninths of the community largely ineffective? Can these real demands be made effective therefore only by a transference of the ownership of the essential instruments of production, and with them the title to the commodities produced by these instruments, from a ninth of the population, to the collective ownership, either through the State or some other appropriate body, of the other eight-ninths? <sup>1</sup> Or is there a possibility, as we suggested at the end of Chapter I, that both defects are answerable for parts of our economic ills and that both must be tackled simultaneously if we would find a solution?

### III

We ought first to consider whether the desired result, *i.e.* the abolition, or at any rate great mitigation, of destitution on the one hand and unemployment on the other, can be brought

<sup>1</sup> In rough figures one-half of the national income is owned by one-ninth of the population.

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about by the proper regulation of the monetary system. For if this proved to be the case it might be argued that the far more complicated task of a transference of the instruments of production from private to public hands need not be attempted—at any rate in order to attain this particular object.

So first of all we must consider whether our monetary system *can* be made to fulfil our three demands on it (for it certainly does not do so at present). Then we can make up our minds as to whether the central paradox of our economic system would, with money perfectly fulfilling its rôle, disappear or not.

As to Mr. Keynes' first two conditions (a stable internal price-level and the prevention of casual fluctuations in the foreign exchanges) it is, I think, safe to assume that our monetary system, though far from meeting those requirements at the present moment, could be made to do so by the appropriate reforms along the lines of Mr. Keynes' suggestions, without the question of ownership arising at all. But the case of the third condition, that of increasing the amount of money issued in order to meet and draw out an increased capacity to produce goods, is far more difficult. Yet this difficulty must be surmounted if there is to be a chance of finding a solution of our troubles by money regulation, without a transference of ownership. The authority which was in control of the emission of credit and currency (and surely so vital and so

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traditional a part of sovereignty cannot long remain alienated from the State?) would have first to decide on whether there was or was not a latent capacity for increased production which could be called out by increasing the amount of money in circulation. If it was decided that there was this latent capacity (as all the experts seem to agree that there is at the present moment in this country) they would have to decide on an emission of money in the expectation of a corresponding increase in production. They would emit this extra money by the ordinary established methods, such as the lowering of the Bank Rate, an increase in Ways and Means advances to the Government, etc. This would mean that the money would be emitted quite indiscriminately on to the Nation as a whole. They would do so in the hope that its effect would be to increase production by increasing demand. In plain language it would give people more money so that they could attempt to buy more of the things they needed. Therefore there would be more buyers in the shops, each with more money to spend. Therefore the demand for goods would increase.

*But this increased demand might have one of two effects. (i) It might simply increase the price of the existing commodities. (ii) Or it might leave the price of each commodity what it was and increase their number by increasing production. To take a homely example. A shopkeeper would one day unexpectedly find a*

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brisker demand for his goods than there had been the day before. His stock would quickly begin to dwindle. To meet the situation he might do one of two things. He might either mark up the prices of the goods he had in stock, or he might hastily write off to his manufacturer (via, in practice, his wholesaler) for an extra supply of commodities. In the first case he would meet the extra demand by raising prices, in the second by increasing supply. But in practice, of course, he would do a bit of both. He would both mark up the prices of his goods and also write for increased supplies. Therefore, to return from the particular to the general, we may say that *an ordinary emission of new money causes, by increasing demand, both a rise in prices and also an increase in supply*. We recognise this when we say, very loosely, that it causes increased production *by tending* to raise the price-level.

But we must examine the phenomenon more closely. In so far as the emission of money actually does raise prices, it will not increase supply. For a rise in general prices caused by an increase in the amount of money was, on our definition, simply inflation. But when inflation occurs effective demand is not increased. Though everybody has more money, everything costs more, therefore no one gets any more of the things they want. If the shopkeeper puts up his prices enough to absorb the whole of the increased amount of money which his customers

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have got to spend, he will not be able to sell any more goods than formerly. When the increased amount of stock which he has ordered arrives he will not be able to sell it at the higher price to which he has now marked everything up. He will only be able to sell just the same amount of goods as before. Therefore, production will not be increased. But more probably he will not do this, but will put up prices only enough to absorb a *proportion* of the increased demand and will satisfy the rest of it by increased supply. *As we have said, the ordinary indiscriminate emission of money will both (i) raise the price-level and (ii) increase production. In so far as it does (i) it is inflation and does no good to anybody. In so far as it does (ii) it is sheer gain to the community.* It is extremely important to get this point clear, for an immense amount of muddled thinking is done on it. Both its advocates and its opponents usually call all emissions of money "inflation." But, as we have seen, an emission is only inflation *to the extent to which it raises prices, and is not inflation to the extent to which it increases production.* Thus, while we must agree with the orthodox authorities that "inflation" is always futile, we must disagree with both them and their opponents when they call all emissions of money "inflation."

The important practical question seems to be, therefore, to what extent does an emission of money raise prices, and to what extent does it increase production? It is doubtful if any



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proportion could be arrived at, but it must be admitted that the proportion of price-increase to production-increase would be, in the case of an ordinary indiscriminate emission of money which was not part of a general purchasing power policy, a high one. As we shall see later, the present methods of emission seem expressly designed to facilitate the speculator whose whole object is to force a price rise. But even apart from this it is fatally easier, under present conditions, for a trader to put up his prices than to increase his supply. Why go to all the labour and trouble of selling more things, even though an increased demand makes it possible to do so, if just as large profits can be made by selling the old number but at a higher price per "thing"? For each individual trader this will be a most potent argument, but, unfortunately, if all of them act on it, there will be, as the result of an emission of money, no increase in sales, and so production, but only a rise in prices. And in the end, the increased profits which each trader has made by putting up his price will turn out to be illusory, for when they come to spend their new money they will find that it does not benefit them at all, for everybody else's prices, as well as their own, will have gone up! While, had they chosen to make, not an increased profit on the old number of commodities sold, but the same profit on an increased number of sales, all would have been well, general prices would not have risen and their gains would have

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been real and not illusory. And in practice they do choose to some extent this better way. Emissions of money have always been accompanied by increased production, as well as by a rise in price-level. Especially is this so of the first effects of more money ("cheaper" money, as the city man calls it). But as the process goes on traders and producers become, experience teaches us, more and more inclined simply to raise prices and not to increase production.

Thus we begin to feel that there are grave difficulties before anyone trying to realise latent productive capacity by indiscriminate emissions of money. We may admit that he will be able to detect by many symptoms that the nation is not producing to its capacity. We noticed some of the more obvious of these in Part I. Unemployment, idle plant, unworked raw materials and natural resources are some of the most glaring. But much more scientific data could be obtained from a census of production, and from extended and amplified Board of Trade statistics such as those which, I understand, are collected and published in the United States of America. Therefore we need not anticipate much difficulty in *diagnosis*, at first at any rate. But when it comes to the cure, the difficulties will begin. At first the issue of more money will undoubtedly increase production as well as raise prices. We shall get the return of what is called "prosperity." But more and more it will be the prosperity of the people who

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can get an immediate gain by raising prices. And more and more prices will tend to rise instead of production to increase. In fact the emission of money will become more and more purely inflationary. Thus, a "new rich" class of traders and speculators will grow up. This has always happened in any community where there has been a prolonged emission of money which has become largely inflationary. It must be so, for if production, and so the common stock of goods, is not being increased, it is clear that the community as a whole, and so the mass of ordinary people, who form ninety per cent. of it—are gaining nothing. All that the inflation is doing is to intensify the mal-distribution of wealth, and so of purchasing power. But we need only recall the conclusions we were driven to in Chapter III to realise how fatal this is for any hope of permanently increased production. The rise of this "new rich" class will concentrate more than ever the wealth of the community into a few hands. But this must mean a steady decrease in the purchasing power of the whole mass of people. In other words, their effective demand will be decreased. (For the purchasing power necessary for making effective their real demands will have been drained away.) It will have passed into the hands of a few "new rich." But it will not be used by them, at any rate to its full extent, for making purchases, for the simple reason that they will have no real needs. Thus the new purchasing power created

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by the emission of money will have become less and less *effective demand* in the hands of people with *real wants*, and more and more *latent effective demand* in the hands of people with *no* real wants.

In other words, we cannot escape the conclusion that the Capitalist system, whenever it is stimulated by good fortune or clever design into increased productive activity, chokes itself with the vast accumulation of commodities which it produces but cannot distribute. (It cannot distribute them because it denies to everybody but a few owners of capital the purchasing power to buy them.) There is certainly a poetic justice in this, but the sentence falls, not on the Capitalists who, however much they may "view with growing alarm" the trade depression which inevitably arrives, are usually observed to survive it very comfortably. It falls unfortunately on their discharged workmen, who are left to the tender mercies of the street and the "dole."

To sum up: what then must be our conclusions on the question of whether it is or is not possible to alleviate Poverty by calling out our latent productive capacity by the better regulation of money? First we saw that money could surely be made to satisfy the two first conditions which we laid down for it. But when it came to the third condition, which was that the emission of money should be so regulated that our capacity to produce might always be drawn out

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to its fullest extent, we saw that grave difficulties arose. The indiscriminate emission of money, though certainly it could, and would, for a time do something to realise our reserves of productivity, must ultimately defeat its own ends by accentuating the ill-distribution of wealth, and so of demand. The "displacement of demand" would become more acute, real demand and purchasing power more widely separated, so that effective demand might actually begin to diminish. Thus the attempt must ultimately be unsuccessful and be abandoned.

So in the end we are forced back to the old fundamental Socialist position, namely, that little can be done with our present industrial system. Until the redistribution of ownership on some reasonably equal basis is effected, the ills from which we suffer are incurable. For until ownership is properly distributed, effective demand cannot be properly distributed. And till it is properly distributed, real demand and latent effective demand cannot be reunited (for the real material wants of one man are, and must always be, very much the same in quantity as the real wants of another). And until these two are united and fused into *real effective demand* there can be no steady and constant consumption, and so production, of goods.

Now this absolutely vital redistribution of ownership can be done in two different ways, one practical and the other unpractical, one the way of the future, and the other the way of the past.

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To take the latter first, the capital, that is, the instruments of production, the raw materials, the tools, the factories, the buildings can be divided up amongst the population. To this man can be given the ownership of a lathe, to that ten yards of a coal face, to another "three acres and a cow," and so on, and so on. Such a society has been called the "Distributive State," and it is held out as the goal of social endeavour by a few remarkable men who, while they see the evils of Capitalism, reject the Socialist solution. The Socialist proposal is designed to achieve the same end but in a different way. We suggest that, instead of giving each citizen ten thousand bricks in a cocoa factory, or three trucks, and half a refreshment room, on the Great Western Railway, it would be more practical to give everybody collectively the whole factory and the whole railway. In other words, we advocate the "Collectivist State" in which the citizens equally and collectively, through some appropriate body, not necessarily the State, own the means of production, and so the wealth of the Nation. (I am far from supposing, however, that we Socialists have nothing to learn from Mr. G. K. Chesterton and his fellow "Distributors.") *In any case, we all believe, that until a redistribution of property, in one way or another, is effected, our fundamental social ills cannot be cured.*

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### IV

Does this mean, therefore, that all study of the effect of the supply of money on the production and distribution of commodities is a snare and a delusion? Many Socialists will, I know, say at once that it does. But I would ask them to consider several things before closing their minds to the study of this subject.

In the first instance, there are many reasons of expediency which make it, I submit, of the greatest importance that Socialists should understand the effect that monetary policy is having on the industrial situation. For although we have come to the conclusion that monetary regulation cannot by itself cure our economic ills, yet this does not mean that its ill-regulation cannot immensely intensify them, or utterly wreck the best laid plans for their alleviation. If Socialists have not got this key in their hands, unforeseen turns of industrial fortune will be constantly upsetting their tactics and giving opportunities for their enemies to discredit them, by showing that their prophecies have not been fulfilled. Again, when they come into power, they will have to take the industrial system as they find it. True they will, we hope, immediately set about the task of transforming it. But it is difficult, if not impossible, to transform something you do not understand. Moreover, during the long or short period of transition, monetary policy, which they will

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perforce control, will be exercising its dominant effect on the industrial situation. If they mismanage it, their enemies can at once point to the resulting trade depression and misery as being the effect of Socialist rule. If, on the other hand, they use their control of money to stimulate industry, they can take the credit for the ensuing prosperity.

But there is one reason, far more important than any of these, for the study of money and credit by the Socialist. Who can suppose that, if we were committed to nothing but the piece by piece "nationalisation" of industry, we could transform society into anything resembling a Socialist commonwealth in under, say, twenty, thirty, forty years—the space of a generation of men and women? Thus we should condemn the whole of the present generation to what amounts to life sentences of imprisonment in the swamps and gutters of modern industrialism. The Labour Party has never, of course, adopted such an attitude as this. It has a whole programme of comprehensive and ameliorative measures other than those of Nationalisation.

But we cannot over emphasise our determination to tackle the great problem of Poverty here and now, as we find it. We must never forget our fundamental policy with regard to ownership. But however much we hate the present industrial system, we cannot, like Pilate, wash our hands of it. It is the very condition of life to millions of our fellow-countrymen. And the



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British are a practical race who will have little to do with men or with parties who will not face situations as they are. It is the object of these pages to try to show that by far the most hopeful field of effort for the mitigation of Poverty during the period of transition lies in the skilful regulation of currency and credit *as a part of comprehensive Socialist proposals*. For Socialists must not go to one of the old parties even for their immediate policy. We must not borrow Protection from the Tories or—well, it is difficult to say what we could borrow from the Liberals. Let us rather adopt a characteristically Socialist proposal, even for our immediate policy.

But we saw just now that any attempt at making Poverty and Unemployment cancel out, at mending the broken link in our industrial chain, by means of the ordinary indiscriminate emission of money was bound to fail in the long run, since it did nothing to mitigate and might even accentuate, the ill-distribution of demand in the community.

The proposals which we shall attempt to describe in the next two chapters are designed to meet these considerations. But before we come to actual proposals, it seems necessary to consider briefly the whole problem from a somewhat broader point of view than the strictly economic one which we have as yet taken up. Up to the present we have considered economics from the monetary side. But this is

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to consider them from the point of view of the consumer—for money is the medium by which he makes effective his wants. But it is more usual to consider economics in terms of the actual goods and services for which money is but a symbol; that is, to consider them from the point of view of the producer. Here therefore it may be well to re-state the main thesis of this chapter, but this time from the point of view of the producer, instead of from that of the consumer. From this point of view also we shall see, it is submitted, the imperative need of a policy *on the general lines* of the one to be described. Lastly we shall attempt to “place” a “purchasing power policy” in relation to the general strategy of the Socialist advance. Then we shall describe the Birmingham Proposals themselves.

### V

We say that our total national production of goods and service is less by some unknown amount than it might be. But also it is of quite the wrong character, in that it in no way corresponds to human needs, which it must always be the real business of production to satisfy. At present a huge proportion of our productive effort goes towards the satisfaction, not of human needs, but of inhuman whims.

One hundred gardeners toil to rear the orchids which decorate the jacket of the politician, as

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he makes his great speech in defence of cutting off the milk allowance to necessitous children. "The Stern Goddess of economy intervenes, as she always must," remarked a recent Minister of Education, who, though justly famous for his disinterestedness and charm, was busily cutting down the education estimates, increasing the size of classes and forbidding the erection of adequate school-buildings. Yet that "Stern Goddess" has been, we cannot help believing, successfully exorcised from the mansions of his noble father.

To-day by universal admission vast masses of the population lack almost the necessaries of life. Yet if we visit some great engineering works, palpitating with all the colossal energy of modern productive processes, we shall not find it engaged in supplying these necessaries, making window-frames for cottages, agricultural implements to grow food, pots and pans to cook with, bedsteads to sleep on, all the hundred and one things which people need. On the contrary, it is ten chances to one that we shall find it exclusively engaged in making luxury motor-cars and nothing else. To-day the one prosperous section of the engineering trade is that which makes these luxuries of the rich. It is the same story in every branch of production. The firms which are engaged on the production of necessaries for the workers are comparatively few, small and decaying. The firms which are engaged in the production of luxuries for the rich are numerous, prosperous and expanding.

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In other words, the whole balance of our productive effort is hopelessly tilted.

“ Flunkeyism ” is steadily increasing throughout our national life. Those workers who are not obviously and directly catering for the “ needs ” of the rich, literally waiting on them, are usually doing so indirectly, are making the lathes which will soon shape their motor-cars, or are cutting the coal which will heat their houses, or drive their machines. This is the modern economic serfage, more subtle, and in some respects as complete, as the frank slavery of the ancient world. For the invisible bonds of economic power are more potent than the crude lash of the slave-driver. A slave-driver would find it difficult to force a starving man, with a starving wife and children, to spend his whole productive effort in building a new palace for his master. Yet, to-day, the relentless power of effective demand, concentrated in a few soft hands, makes a whole miserably necessitous nation of “ free ” British workers give their best skill and energy to satisfying the taste for luxury of their masters.

It is hard to exaggerate the importance of this misapplied productive power. It means that the task of getting our production of necessaries up to capacity must be divided into two halves. First, there is the comparatively obvious task of increasing production of all sorts to capacity without altering *the character* of what is produced. It is easy to estimate what

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this would amount to. We should take industry out of its present slump into a period of boom. To do this it is only necessary to increase effective demand to what it is during a period of prosperous trade. Beyond all reasonable doubt this could be done to-morrow by the scientific and cautious creation of new money; industry would become prosperous again, unemployment would at once drop, some vast new fortunes would be made, and the ranks of the peerage would be proportionately recruited. But the gain to the working classes, although perceptible, would not be startling. As we have already seen, the new money would soon tend to accentuate the "displacement of demand" and so the "flunkeyism" of industry.

Thus an even lower proportion of our national effort would be directed to the satisfaction of working-class needs. So that even when something approaching our total productive capacity had been realised, the standard of life for the worker would remain low.

As our Capitalist friends often tell us, there is under the present system no vast surplus of wealth which could be realised for the benefit of the workers. *Production is, on its present basis, totally inadequate.* It is strange that the impassioned defenders of the present order should give the workers so clear an assurance that their only conceivable hope lies in radically transforming it. But they are quite right and we will take them at their word. The only

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question that remains is, how is the transformation to be accomplished? Must our whole vile, crazy, convict ship of a social and industrial system drift into peril of disaster, or can we devise some means whereby it can be transformed out of all recognition into a seaworthy craft, habitable for men and women?

To go back to the question of realising the real productive capacity of the Nation. By a mere indiscriminate expansion of money, an increase in purchasing power all round, all that can be done is to increase production from its present abnormal depression up to normal boom conditions. But even so such an increase would be only temporary. To maintain it, it would be necessary continually to expand credit, with the continual risk of inflation.

But to realise those dreams of plenty which speculative economists dangle before us, much more is needed. There is no reason to doubt the truth of the conclusions that have been reached by everyone, from the late Lord Leverhulme to the strongest Socialist who has examined the question. *Theoretically* we might produce enough to give everybody a real wage which would enable them to live on a standard immensely superior to their present one and yet work for shorter hours.

But to do so would require a complete reorganisation of our productive resources. A reorganisation so vast and so far-reaching that

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it makes such speculations very dim and uncertain *in our present order of society*. The rich man's hundred gardeners would have to stop growing orchids and be trained as skilled farmers to grow corn. The whole army of parasites which surrounds the rich, the personal servitors, the family lawyers, the luxury shopmen, the Saville Row tailors, the Bond Street dress-makers, would all have to be transferred on to useful work. But what is an even more formidable task, the whole of our great productive processes would have to be redirected. The engineering shops must stop making luxury cars and make steel frames for working class houses, the luxury house-furnisher must be taught to supply kitchen tables. In addition to all this there must be great readjustments of industry to meet the changing needs of the population. For instance, to-day we have too many ships, and vast, idle shipyards with thousands of our most skilled engineers and designers idle. But we desperately need new electrical super-power stations. Yet we make no real effort to transfer our productive energy from one field to the other. If all these vast transformations could be accomplished then indeed we could realise those almost incredible reserves of productive capacity, which we certainly possess. But the task of reorganisation is gigantic.

How could so vast and yet so complex a change be accomplished in a comparatively short space of time? There are only two

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conceivable ways. One is the usual way advocated by violent revolutionaries. There must be, they tell us, a violent upheaval of society in which the economic privileges of the upper classes are all abolished. And this must be followed by a long or short period of the "Conscription of Labour." Only so can our great reserves of labour power be released from the service of the rich and drafted on to useful work. Then, when the new labour power has settled down in the new channels, the conscription of labour can be abolished and effective demand allowed to operate again. This was the method employed by the Bolsheviks in Russia. Quite apart from the fatal barbarities of such a course there are very grave economic objections to it. In the first place terrible damage is apt to be done to the productive machine during the initial period of violent upheaval. Thus, when the Bolsheviks had finally got complete control of their productive resources and could turn them all on to useful work they found that they had been so damaged in the process of transition that the whole of them in their present state hardly exceeded that small part of them which was usefully directed under the Czars. They found that the total amount of capital assets in the country had been so reduced that they were unable to put up the factories, sink the mines, buy the agricultural machinery, etc., which they needed. Thus they have been unable to raise at all startlingly the general



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standard of life of their workers.<sup>1</sup> But in addition to this there is, and rightly, the greatest repugnance to the transitoinal period of industrial conscription. It is all very well to tell men that you are only conscripting them in order to free them. They may not believe you, and even if they do, it is doubtful if they will work very well for you when they have been conscripted. At any rate it is almost impossible to believe that either a violent upheaval of society or the subsequent conscription of labour can ever be realised in this country. Both expedients are so foreign to the British temperament that they must be ruled out as impossible. The British Labour Movement has recognised this by committing itself wholly to evolutionary and constitutional courses. It has been absolutely right to do so. But if we are to abandon, as we have abandoned, the revolutionary methods of attaining the common aim of a Socialist commonwealth, then we must substitute our own alternative expedients. And this does not seem to have been done very completely or effectively. Hence the danger, which we must always be on our guard against, of our falling away from our real purpose and

<sup>1</sup> The Bolshevists can, of course, make a very good answer to all this by pointing to the fact that their industries were wrecked very much more by the European War, the Civil War and the Blockade than by the Revolution. But in the opinion of such observers as Mr. Bertram Russell, they would have had grave difficulties even if the Allies had not committed those crimes.

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becoming a mere second edition of the Liberal Party.

Is there not then a peaceful and evolutionary method of effecting the redirection of productive effort? The reorganisation of society on the basis of need instead of profit? The "inevitability of gradualness" will hardly satisfy the need. It is useless to suppose that we shall transform the world by nationalising a few broken-down industries. Truly a time is coming very soon when it may not be difficult to acquire the mines or the railways for public ownership. But then oil is fast supplanting coal, and electricity and petrol are just about to make steam obsolete. It is hardly to be wondered at that the more intelligent Capitalists are beginning to show a genuine willingness to palm off their very shaky mining or railway shares on to a duped community. For naturally, a Socialist Government would be urged to take over those industries which are most depressed. And that will mean those industries which are just becoming obsolete. It would soon find itself dressed up in the cast-off clothing of Capitalism. (The Municipalities have already, it is to be feared, fallen into this trap by having taken over the tramways just before 'buses supplanted them.) It would have mines equipped with obsolete machinery, the steam railways, the trams, on its hands just when they had all been superseded, and the private Capitalist would be gaily reinvesting his vast compen-

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sation in new fields. This would, indeed, be a "triumph for private enterprise." It is evidently not thus that we shall usher in the dawn of a new era.

*No, real Socialism, if it is to be quickly effective, must come over the whole productive field simultaneously.* This has always been the argument of the revolutionary and it must be admitted that it has never been effectively answered. But is it possible to initiate Socialism simultaneously over the whole field and yet gradually and without violent upheaval? Those Socialists who have been working along the lines of the proposals to be submitted in these pages, believe that such a solution is, under certain conditions, possible.

## VI

Perhaps the fundamental facts upon which we are working have been as well stated by Mr. Hartley Withers as by anyone else. In his excellent little book "The Case for Capitalism"—which is by far the ablest extant defence of private ownership—he especially praises the Capitalist system for its great regard for the consumer. Under Capitalism the ordinary, average consumer, he tells us, is king of the world. The whole great productive machine of modern industry is at his command. The cleverest brains spend sleepless nights trying to cater for his smallest wants. For it is no use

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for them to produce anything unless it satisfies some want of the consumer. They spend half their energies in trying to stimulate, to anticipate, those wants by the aid of advertisement and salesmanship. Private enterprise means that industry is at the service of the consumer, for his demand alone can give value to the manufacturers' products.

If only we stick closely to the printed page this argument is unanswerable. But its unreality becomes apparent if we permit ourselves to look at the real world for even a moment. For to tell the unemployed worker, with just enough purchasing power to keep himself alive, that he and his fellows control the whole productive power of the world, is but to mock him. The truth, of course, is that Mr. Hartley Withers is perfectly right when he says that demand—effective demand—controls the productive machine. But when he goes on to assume that this means that the average consumer, the man in the street, controls it, he is merely childish. For effective demand is concentrated in the hands of a few property owners. The worker, far from controlling production by his demand, is the slave of the effective demand of his masters, the owners of property. In other words, the ill-distribution of purchasing power has made an absurdity of the conception of the average consumer controlling production. But this does not mean that effective demand does not control the situation. It does so absolutely.

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Indeed, in any economic system in which a medium of exchange such as money is retained, it must do so. For the essence of money is that its possessor has an unquestioned title to a corresponding amount of goods and services. This would still be so in a community in which all the means of production had been socialised—in any community in fact which had not instituted barter and abolished the medium of exchange.

*Thus it is true to say that he who holds effective demand controls the productive resources of the country.* Effective demand is a powerful magnet which can draw industry after it. Change the direction of the pull of purchasing power upon industry and productive power must re-align itself. In other words, *effective demand* is the one instrument which could effect that vast transformation in industry which we have seen to be so difficult, and so necessary, and yet effect it without any violent upheaval. If effective demand can be taken out of the hands of the present property owners and disseminated into those of the workers, then we shall be in a position to undertake that gigantic reorganisation of industry necessary for an era of universal plenty.

*This is the real, the practical revolution—the revolution by reason—that could be accomplished in this country in the immediate future.*

As we have seen, the proposition is not merely one for the transference of effective

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demand from the rich to the workers. New effective demand must also be created. We must create new demands in order to lift industry out of its present slough up to the point of prosperity that it reaches during a boom. We must transfer existing effective demand into the hands of the workers because only so can the still more important task of the reorganisation of national production on the basis of human needs be undertaken. Only so can the great burden of providing for the luxuries of the rich be withdrawn, and industry be allowed to get down to its real task of providing for the needs of the population. It will be only then, when effective demand has been put into the hands of the workers, that the piecemeal transference of the ownership of the instruments of production from private to public hands can be successfully undertaken.

## CHAPTER V

### THE BIRMINGHAM PROPOSALS

#### I

“ And you say it is impossible. Brother, I answer, if for you it is impossible, what is to become of you? It is impossible for us to believe it to be impossible. The human brain looking at these sleek English horses, refuses to believe in such impossibility for English men. Do you depart quickly; clear the way soon, lest worse befall you. We for our share do propose, with full view of the enormous difficulty, with total disbelief in the impossibility, to endeavour while life is in us, and to die endeavouring, we and our sons, till we attain it or have all died and ended. . . . We pray you, let the word *impossible* disappear from your vocabulary in this matter. It is of awful omen; to all of us, and to yourselves first of all.”—CARLYLE, “ Past and Present.”

In the previous chapters we have been gradually driven to the conclusion that our present economic system is slowly ceasing to function. Whether we like it or not, the whole economic framework of our society will, sooner rather than later, have to be renewed. We have attempted to analyse the difficulties of modern Capitalism, working in these islands. We have essayed to estimate the chances of reorganisation along the lines of ordinary

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evolutionary Socialism. We were forced to admit frankly that those chances did not seem bright. On the other hand, we were compelled to reject the "solution," by way of economic collapse and violent revolution, as both unsuited to the character of the British people, and as doubly disastrous in the peculiar situation of our islands, dependent for essential supplies upon the rest of the world.

We are compelled therefore to undertake the quest of a policy which can offer hope of a reorganisation of society, on the one hand, sufficiently rapid to avoid the slowly approaching collapse, and on the other sufficiently just, ameliorative and acceptable to avoid violence and disaster—in a word to effect "the Revolution by Reason."

Thus we have rejected on the one hand "the inevitability of gradualness"—and on the other violent revolution. The objection to the former is not indeed that it is gradual, all effective changes in the social habits of mankind must be that—the objection is that it is anything but inevitable. There is something a little trustful and over-optimistic about the way some Socialists, both of the "right" and of the "left," seem to think that the control of our whole economic system will automatically fall into their hands.

Some of the men of the "left" are inclined to sustain themselves with the belief that a broken-down Capitalism is on the point of



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dropping like a ripe plum into their hands. Some "sane" theorists of the "right," on the other hand, rely on the force of circumstances which, they suppose, will gradually induce our present masters to transform the industrial system into a Socialist commonwealth. Those Socialists who have been engaged on working out the proposals to be submitted in these pages could not feel content with this form of political fatalism. They had come to the conclusion that Capitalism, though obviously in difficulties and, in these islands at any rate, in permanent decline, was extremely unlikely either to break down entirely, and so deliver itself over without a blow to the optimists of the "left," or to transform itself into a Socialist Utopia at the behests of the economic theorists of the "right." They believed that there was faint hope that the present holders of economic power would voluntarily surrender it to the organised community. Therefore a line of policy had to be found by which the keys of economic power could be acquired by the democracy. In fact it is this *transference of economic power* which is the crux of the whole matter. And this specific art of transference cannot possibly be gradual. You cannot "gradually" arrest a fraudulent trustee who is making off with the public estate. But when the arrest has been made and you have got the management of affairs back into your own hands, you must *gradually* begin to

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put them in order. In the same way the community, when it sets about the task of transforming society, can only proceed step by step, cautiously, with circumspection and deliberation. But the instruments, the keys of economic power, without which the transformation cannot be effected, must be acquired; not *gradually*, but by a single decisive act. For without the possession of economic power the hands of democracy are tied behind its back.

The history of the post-war revolutions in Europe has made this statement almost a platitude. On all sides Socialist Governments were thrown up into "power." But everywhere they failed to put their hands on the keys of the economic machine. Accordingly they soon found themselves helpless before the leaders of Big Business. It was not so much that the great Industrialists made an organised resistance to a drastic Socialist policy, and succeeded in breaking it. It was rather that the new Socialist Ministers found themselves face to face with an economic system which they did not understand, and with a population whose wants had somehow to be supplied (usually in circumstances of exceptional difficulty). The Big Business men alone had experience of working the system, and they had all the key positions in their own hands. But naturally they would only work it in their own way and on their own terms. These terms the Government had to accept. Very soon the

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Ministers found themselves in the humiliating position of being forced to help the Capitalists firmly to re-establish themselves in the saddle, to break strikes, and to reinforce longer hours and lower wages. Before long, of course, the Government's Socialist supporters revolted against this betrayal. Then the Government fell and was replaced by a frankly Big Business administration. With more or less variation this is what has happened all over Central Europe in the last seven years. The continental Socialists utterly failed to make the transition from the propaganda period of Socialist activity to the period of the struggle for power. They believed, innocently enough, that they had only to enter the Central Government Offices, form a Cabinet, pass laws through their Parliaments, and the Socialist commonwealth would become an accomplished fact. They quite failed to see the necessity of laying their hands on the vital points of the economic system.

The exception to all this is of course the Bolshevik party of Russia. No one will accuse *them* of having failed to seize the economic system, of having left Big Business in the saddle, or of having shirked the struggle for power! But then they knew no way of acquiring economic power except by revolution and the destruction of the entire social fabric of the life of their community. (And this of course led to almost irreparable damage to its wealth-producing resources.

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The course of events in Great Britain may well lead to a situation in which the Labour Party will be rudely confronted with these issues. They will arise on the very day or which a Socialist majority is returned to the Parliament at Westminster. Shall that majority follow the example of the German Socialists, leave the power of Big Business intact, become successively its ally and its dupe until it finally falls before the English equivalents to Herr Luther, Herr Stressman, and President Hindenburg? Or shall it attempt the violent transformation of Russia—with all it entails? The first alternative must obviously be avoided almost at all costs, the second is not only "unthinkable," but also, which is more to the point, quite impossible of realisation in this country, for the reasons which we have already indicated.

These are the considerations which have actuated certain Socialists of the Birmingham movement to seek for a third alternative. They have found such an alternative in the proposals to be submitted.

*These proposals are for the creation of (i) a public banking system capable of giving such accommodation to industry as will enable it to increase the purchasing power of the workers, so that a new home market can absorb industry's real productive capacity; and (ii) of an Economic Council for the co-ordination and control of that productive capacity. These institutions, it is*

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*submitted, would give a Labour Government control of the economic system.*

(Of course the possession of the actual instruments of production, the mines, railways, land, factories, etc., would give such control, but they could only be acquired quickly by force or through the long process of legislation along ordinary evolutionary lines. Such a process must necessarily take many years to accomplish, and until, at any rate, the basic industries were socialised, the balance of economic power would not have shifted from the hands of the Capitalist to those of the community. During the whole of that intricate and delicate transformation the newly-fledged national industries would be at the mercy of hostile interests.)

In this chapter two main lines along which the power of the banks could be used for the public good are submitted. We believe that industry can be both *pulled and pushed* into the service of the community, *if the potentialities of money and credit are fully realised*. But it is not thought that the banks alone would be an instrument strong enough to enable a Socialist Government to control the industrial system. The Government might still find itself the servant and not the master of Capitalism. It is for this reason that it is proposed to create, simultaneously with the socialisation of the banking system, an Economic Council.

And here a lesson can be derived from the "Emergency Socialism" of the War years. It

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was discovered that it was by no means necessary to "Nationalise," that is to acquire the capital of, an industry in order to make it work for the national good. All that was necessary was to control the *supply of raw material*, on which the industry depended. To make assurance doubly sure, the market for which the industry worked might also be placed in public hands. In this way the firms engaged in the industry became in reality the agents of the community and worked up the raw material into the finished products in return for a fixed commission (for the Government controlled both the price at which the raw material was sold to the industry and the price at which the industry disposed of its finished product). This was the system on which the Government Control Boards worked during the War, and the proposed Economic Council must possess the same powers. But it would also work along other lines based on the monetary considerations which have been submitted in previous chapters. It is suggested that if the first two acts of a Labour Government were the socialisation of the banks and the creation of such an Economic Council, the Government would find itself properly equipped in the struggle for economic power. With these two instruments it might hope to control Big Business and force industry to serve the needs of the Community instead of finding itself in the humiliating position of having to support the

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Capitalists in their economic dominance, in order to induce them to supply the elementary wants of the population. These two institutions could be created by brief acts which could be passed within a comparatively short period of time. Once they were on the Statute Book the Government could execute its mandate from the people by means of the power which it would wield through the banks and the Council, while at its leisure it might initiate what Socialist measures it deemed advisable.

But if economic power could, in our opinion, be secured by the socialisation of the banks and the creation of an Economic Council, this power must be used as well as acquired. Therefore it behoves the Labour Movement to think out not only what key instruments it must create, when the verdict of the polls has given it the constitutional right to do so, but also the way in which it will *use* these instruments. Hence a series of proposals have been submitted which suggest various ways of controlling industry by means of the twin instruments of socialised banks and an Economic Council. The author is well aware that any such detailed proposals for the functions of these bodies must be both crude and tentative. The circumstances of the moment must necessarily determine much. But these proposals are submitted as a possible basis for development and as a stimulus to constructive thinking within the Labour Movement on the all-important subject

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of the next phase—the phase of the community's struggle for economic power. More especially are they submitted in the hope that they may draw attention to the importance of *Money and Credit* as weapons in that struggle.

### II

#### A DESCRIPTION OF THE PROPOSALS

We may first make suggestions for the functions of the Economic Council. This would be a permanent statutory body. It would be of enormous importance (though without, of course, any legislative powers). It would be essential to secure the services on it of the very best and most experienced brains of the country—men who could take a clear bird's-eye-view of the whole field of production and exchange. The functions of this body would be of two kinds, the first of a novel character, the second based on war-time experience.

*First*: to create and maintain new effective demand by forcing up the money-wages (and other receipts, such as unemployment pay, etc.) of the working classes.

*Second*: to secure a better organisation and planning of the national capacity to produce and distribute, in order that this new demand should *result in an increase of the production of goods and services, and not in an increase in prices.*



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Let us examine these two functions separately. The Council would find various means of increasing the amount of money paid to the working classes. The most important of these would undoubtedly be the institution of Minimum Wage legislation.

Accordingly one of the first tasks of the Council would be to advise the Government on the initiation of Minimum Wage legislation. In doing so, it would take into account considerations of various kinds. It would certainly seek to determine what, in present-day conditions, could be considered the minimum weekly wage on which there was any hope of a working-class family being able to live a decent life. Nor should such deliberations occupy the Council long. As Mr. Maxton has pointed out, the evidence of a few practical housewives should settle this point on the spot. The Government could then seek to awaken the country to the urgent, the humane, task, of obtaining at least such a rate for every family in the kingdom.

But the Council must then turn its attention to the question of whether such a wage could or could not be paid to the worker to-day. For, of course, it could not be paid if it was to be a real purchasing power wage, unless there is sufficient production of the necessaries of life. Sufficient production, that is, to enable every worker's family to receive the amount of necessaries represented by the rate of wages

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decided upon, at current prices. The answer to the bald question of whether there is at this actual moment a sufficient production of necessities to do this, would probably be in the negative.

But the Council would not remain satisfied with such an answer. Industry, as we are told, "could not bear" such a wage. The Council would act upon the assumption that if industry could not pay such a wage, then the community must reorganise it in such a way as to enable it to do so. But before the Council addressed itself to this, the second part of its functions, it would have to determine some more wage questions. It would turn to the question of what real wages could be paid if the production of working-class commodities could be increased to what is theoretically possible, assuming some great reorganisation of productive effort. The answer to this question would certainly be a very startling one. Obviously no exact figure can be given here. But every single person who has ever examined the problem has come to the conclusion that a vast increase of production, and so of real wages, is possible. We have already examined the real evidence for this view—evidence of the character which we noticed in Chapter I—idle plant—unworked raw materials, and unemployed labour power.

Then there are innumerable facts to be drawn from controlled production in war time. For instance, it is calculated that during the War

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we produced for the fighting forces alone more blankets than our total production before the War. Thus the needs of our whole civil population, which were somehow supplied, were entirely provided for by increased production.

What the Council would do, of course, would be to make the most careful estimate possible of our total potential production of "useful" goods and services, with existing productive resources, but in a reorganised society. Then it would calculate what real minimum wage at present prices this would make possible for the worker. It would then take some proportion of this figure, say three-quarters, in order to allow fully for possible over-estimation, and then publish this as the average wage figure which the Nation should set before itself as the ideal to work for. It would then determine and publish the average wages actually paid to workers to-day.

As we have said, the first and immediate object of a Labour Government should be to raise average real wages. In theory, the Government might boldly enact that on and after a certain date the principle of a minimum wage was compulsory, in the confident expectation of the new demand creating a new supply of goods and services. This would not mean that on some Saturday night everybody employed in occupations for gain, men, women and children, must receive the new minimum. On the contrary, the Council would decide

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whether or not the minimum was to be the same for men and women and also for young workers. It might, for instance, decide that there should be a different minimum rate for women and for persons under eighteen years of age. Or, on the other hand, it might base its recommendations on the principle of "equal pay for equal work." It is not within our scope to enter into these questions, important and intricate as they are.

Nor, of course, would all the new increases in wages be made in one week. For, clearly, if the average wages paid to workers were suddenly and drastically increased on a given Saturday night, the sudden new demand for goods of all kinds would be quite unmanageable. Millions of extra pairs of boots, of shirts, of tons of meat, of chairs and tables, of transport facilities would be needed. Obviously if this huge increase of demand were suddenly, on one Sunday, thrown on to the market, chaos would result. The production of all these things, and the thousand others I have not mentioned, takes weeks or months. The only way to satisfy the increased demand, until new production could be realised, would be to put up prices. But this is exactly what we wish to avoid at all costs. Therefore it is clear that the most careful machinery must be thought out for letting the increased demand flow into the market steadily and gradually so that scarcity, and therefore a rise in prices, is avoided.

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The great industrial omnibus must not, as it were, be jerked too violently out of the two great parallel ruts of Poverty and Unemployment in which she is lying. Her clutch must be let in smoothly and gently so that the heavy load is properly taken up and the 'bus is got under way again without mishap. Several ways of doing this are at once apparent. One would be to make the rise in wages gradual and progressive instead of sudden. Thus a man who is to-day receiving considerably less than the minimum rate would not suddenly get the whole extra amount, but would be given a small sum extra each week, or even if necessary each month. Thus his demand for goods would only increase gradually and would give production a chance to cope with it.

The Council, in fact, would have to be constantly reporting to the Government on the state of productive industry. Sometimes it would report that its productive capacity of necessaries was such as to warrant an increase in the level of wages. At other times it would report that industry was temporarily working at capacity until some new plant had been got going, or some new workers trained. Therefore, for the moment there could be no wage increases. As the scheme progressed new problems would arise. For when a decent minimum wage had been achieved, only the first and emergency part of the task would have been accomplished. It would remain to call out, with the potent

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instrument of working-class demand, those vast and latent reserves of productivity which Science has put at our service but which we, in our blindness, have never used. It would then be the task of the Council *to raise average wages rather than to establish minimum rates.*

Or, again, the Council might come to the conclusion that our whole wage system was obsolete, at any rate in its present form. It might decide that the chief method for increasing working-class demand should be a system of family allowances. It may easily be held that it would be very much more equitable, that it would lead to a distribution of purchasing power much more in accordance with people's real needs, if some such scheme as that of "the Family Allowance" were adopted and superimposed on the basic minimum rate, rather than that the Council should attempt to establish differential rates on a sort of enlarged Trade Board system.

This is not the place to lay down the precise methods which the Council would adopt in its task of forcing up the demand of the working classes or of disseminating purchasing power evenly amongst them according to need. All that we can do here is to suggest a few of the alternative methods which would be open to the Council, lest any reader should imagine that the enforcement of a flat national minimum wage is the only instrument which would be used. There is, for instance, the whole great

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question of Unemployment maintenance. We believe, indeed, that the increase in effective demand which the payment of decent wages to workers would bring about would quickly absorb the greater number of that army which to-day haunts our streets. But certainly in a vast industrial system like ours there would always be, this side of Utopia, a body of men who were temporarily without work which they were suited to. Especially would this be so at a time when a great transference of productive effort was going on from the luxury to the necessity trades. Therefore the Council would have to decide on what scale these temporarily unemployed workers were to be maintained. They might base their decisions on one of two basic principles. They might either decide that a man should not be penalised at all because he had been unable, usually through no fault of his own, to find employment. They might decide to give a full maintenance allowance equal to the minimum wage in force at the moment. In this case, of course, the labour exchanges would have to be empowered, as indeed they are to-day, to cut off the allowance if a man refused to take any employment, at or above legal wages, for which he was physically fit. For although the vast majority of British workers would certainly far rather work for a decent wage than live on any kind of "dole," yet, of course, there are in every large community some slackers who would seek to abuse

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the maintenance allowance by living on it and avoiding work. This scale of allowance would place great power in the hands of the labour exchanges and would mean that they would become "clearing houses" through which the whole stream of Labour Power flowed.

On the other hand, the Government might take the view that it was better to make a considerable difference between the unemployed maintenance allowance and the minimum wages rate. There would then—in contrast to the present position—be a strong, automatic, economic inducement for the man to get work. Of course, the right of the labour exchange to cut off the allowance if work were refused would, then as now, be kept in reserve. But it would not be the only inducement. And here arises an interesting point. We are always hearing complaints about men avoiding work because they find themselves as well or better off on the "dole." And although, as we have seen, these complaints will not stand the test of investigation, yet it is to-day impossible to differentiate appreciably between the lowest wages paid and the unemployment allowance. For the present subsistence rate of wages, since they are themselves the very least that a man can live on, make it impossible to give a maintenance allowance to the unemployed which is substantially below them, for such an allowance would not maintain life at all. But with a



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decent minimum wage such a differentiation becomes, if it is desired, possible.

To sum up, the first part of the Council's work would be that of a permanent body set up to watch the volume of production of the Nation as a whole with a view to reporting on how best it could be distributed amongst the Nation by means of wages. But it would not merely take into consideration the actual amount of production at a given moment. It would always be examining *productive capacity*, both immediate and ultimate. And it would be continually seeking to realise in practice a little more of this latent capacity by means of the instrument of working-class demand. Whenever it saw a capacity to increase the production of "working-class" commodities it would, by forcing up wage rates, give the workers a little more money and so a little more effective demand, in order that there should be a market for this possible increase of productivity.

The Council would in one sense, it is true, "control" industry. But it would do so to some extent through the instrument of effective demand. It would control production in the sense that a magnet "controls" steel filings; it would so direct the flow of purchasing power that the producer would have no option but to alter the character and volume of his production so as to meet the new demand. The initiative of production would still be decentralised and individual. But there would be an ever-watch-

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ful directive body drawing out, stimulating, the production of useful working-class necessities by means of continual increases in working-class purchasing power.

From the administrative point of view alone the creation of a centralised Economic Council is an urgent necessity. It would constitute a Central Authority for the distribution of goods and services by means of the dissemination of purchasing power. All the chaotic jumble, the half control, the stingy charity, of our Trade Boards, our Unemployment Relief, our Poor Law system could at last be swept away. Almost every shade of opinion seems united on the necessity for the abolition of the present Poor Law, with its strange anomalies, and the prevention of the inevitable overlapping which goes on between the "Guardians" and the labour exchanges. In a sort of haphazard way these institutions do act as disseminators of purchasing power and without them the industrial system would already have broken down. But they work in the least efficient, most wasteful, most unsystematic way possible and must be replaced by one unified effective authority. The saving of this administrative reform would in itself be enormous—both in hard cash and in its equivalent, national efficiency. It is necessary to remember that the whole cost of our present rickety system of national relief must be set against the cost of any new system, such as the one here proposed.

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### III

So much for the first part of the Council's work. We now come to the second and the more intricate side of the work of the Council. This would be the organisation and planning of the National Productive Resources, so that new goods and services should be forthcoming to meet and satisfy the new demand. This is indeed a vast subject. If we were to treat it adequately it would be necessary to devote to it the whole of a larger book than this one. But fortunately this subject has already received, and is receiving increasingly, the attention of the best minds of the Labour Movement, and, indeed, of all progressively-minded people. Hence we need only deal very briefly with it here. But this must not be thought to suggest that we do not regard it as equally important as the other side of the Council's work.

The idea of a great Advisory Council, whose business it should be to watch over and direct the whole national scheme of industry and commerce, is indeed an obvious one. The scope and powers of such a body are of course differently envisaged by different thinkers, according to the degree to which they have been influenced by Socialist thought. What we have in mind is a council with wide and important functions, such as those contemplated by the supporters of the recent (summer, 1925) Labour measure, introduced into the House of Commons as a method

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of dealing with unemployment. Such a body as we have in mind would be in a position to tell the employers in any "basic" industry that they must come together and organise their industry on an efficient basis. Thus it would be able to tell, for example, the mine-owners and the Railway Companies that they must each create a national corporation which would provide the community with the essential commodity, coal, and the essential service, transport with the utmost efficiency possible, and in return for an agreed remuneration. And the Council must know that behind it stood a resolute Government ready to take over the industry itself by summary methods should the present owners prove refractory. Thus the Council could feel assured that the production of new commodities, to meet the new demand could not be held up by a vested interest controlling some essential service such as coal power or transport.

We may notice another function of the Council. A small committee of experts would be set up in order to determine what were the commodities the demand for which would increase most when the working classes were given more money. The Committee would not of course, be able to tell exactly what commodities would be most wanted—indeed the actual facts might be surprising—but in certain well-defined fields of necessities they would at any rate know that there would be increased

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demands. (Otherwise we should have to suppose that people's tastes would suddenly alter when they had a little more money.) In these fields they would report to the Government that greatly increased demands were to be expected. The Government would then go to the manufacturers of these articles and would tell them to lay in large stocks. If necessary, a guarantee could be given to any incredulous manufacturer. The Government would know that as a matter of fact he was bound to sell his goods because of the increased demand that the Government was going to create amongst the wage earners. Thus it could easily afford to make the Nation as a whole lay in large stocks. Thus there should be no chance of jumping prices when the increased demand first came along.

Again, and this, as we are beginning to realise, is one of the first points in economic reorganisation, the Council would have to be in a position to arrange for the "bulk buying" and "orderly marketing" of imported foodstuffs. It would act, let us say, along the lines indicated in the I.L.P. report on Agriculture. A public Corporation would be set up in whose hands would be vested the sole right to import foodstuffs (or, perhaps, to grant licences to firms for their import). The Corporation would make long-term contracts with the oversea producers, who are in many cases (in both Australasia and Canada, for instance) already organised into

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co-operative selling trusts. On this side orderly marketing, direct to retailers, or, if necessary through co-operative or municipal shops to the consumers themselves, would be initiated, and the great army of parasitic middlemen, so eloquently described and so studiously left alone by successive "Food" and "Agriculture" Commissions, would be eliminated. This bull import of foodstuffs would indeed be an essential part of the proposals. For should it not be undertaken there might be a fear that an increase in working-class demand might lead to a rise in the price of food. It is not, of course by any means certain that increased working-class purchasing power would lead to a greatly increased demand for imported food. Most working-class people have just enough to eat already. They would be more likely to spend "a little extra" on manufactured goods, such as commodities for their homes, comforts, clothes and footwear, and, it is sincerely to be hoped, more frequent and better amusements and amenities. In the case of wheat, for example, a higher standard of life might actually decrease the amount of bread consumed (and therefore the amount of wheat imported) since more people would be able to afford a more varied diet. But the demand for other imported foodstuff would probably increase; particularly, of course, the demand for meat. Therefore it would be essential to secure (i) that existing stocks should not be held up by middle-

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men and (ii) that production in the Dominions and indeed all over the world should be stimulated. The obvious way to do both these things is of course to arrange long-term contracts with the producers so that they can increase production without fear of a ruinous slump in their prices. But, it may be objected, the raising of stock for meat takes time. There could be no great increase in production for at least two years. What is to happen in the meanwhile? Will not the increased demand cause a rise in prices? The answer is, of course, that this is exactly what bulk-buying is designed to prevent. For even though it would take time to increase the flocks and herds of the Antipodes, yet this does not mean that we could not at once increase our import of meat without raising prices. The Public Corporation could well afford to arrange its contracts with the producers' organisation at a shade above current world prices. This would mean that we could increase our share of the present world production. Nor need there be any fear of it increasing the price to the consumer, for the savings which the Corporation would make by the elimination of middlemen and by centralised organisation would far more than compensate it for the slightly higher buying price.

This brings us to the whole broad question of the *flexibility* of the modern productive system. How far would it really respond to the pull of increased demand? We certainly believe

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that, more particularly at the present moment, the latent productive capacity immediately realisable by increased demand, steadily, scientifically and gradually applied, is large. Of course it is not supposed that any huge bound forward in the standard of life enjoyed by the worker could be realised in a few months. Many foodstuffs and raw materials must await the seasons for their fruition. Yet even in these cases world production would respond surprisingly quickly to new demand applied in the manner we have outlined. "It is always harvest time somewhere in the world," and it would be the business of the Economic Council to see that the first fruits of that harvest went to the satisfaction of British needs. Moreover, we cannot, if we want to move in the world of economic reality, take quite such short views as politicians are sometimes apt to consider the only ones that are "practical." The fact that a purchasing power policy would undoubtedly have to be applied over a period of years in order to alter fundamentally the national standard of life, is surely not a very valid argument against it.

Another doubt may have arisen in the mind of some readers. "You talk of creating an Economic Council," they will say, "along the familiar lines of the Labour Party and I.L.P. proposals. Its functions, you say, would be those which have long been advocated—the control of basic industries such as railways and



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mines, the control of imports, the general direction and guiding of industry. This is all very sound but it is not new. And your only new suggestion is that this Council should also concern itself in forcing up the wages, unemployment benefits, etc., of the working classes. But surely if it succeeds in its task of reorganising industry and commerce, of planning out our national productive resources to the best advantage, there will be no need to raise the wages of the workers? That will happen automatically owing to the general increase in wealth."

This question really raises the whole crux of the matter. If any single economic fact has been demonstrated in these pages, it is simply this—that increased purchasing power, especially increased working-class purchasing power, does *not* automatically follow an increased capacity to produce, caused by better economic organisation: *that it is not enough to concentrate, as the Labour Movement has up till now so largely done, on the productive, the organisation side, and to leave the consumptive, the monetary side alone.* It is most strongly urged that the whole Labour programme of public ownership, national planning, orderly marketing, etc., etc., will be jeopardised if an equally vigorous, equally developed, *purchasing power policy* is not added to it.

Indeed, it is necessary to go further than this. We believe that to attempt the organisation of

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*supply* as a first step in an economic policy is to begin at the wrong end. *The first step must be the creation and maintenance of effective demand.* For otherwise there must arise the question of what to supply? What is it you wish to organise? And in the absence of tangible demand, "clothed and interpreted in terms of an offer of money,"<sup>1</sup> how shall we know what to supply? We should be driven towards an economic dictatorship under which an all-wise Government provides only those things which it thinks its citizens *ought* to want. We prefer to let those citizens express their *real* wants, by giving them purchasing power. Then we can facilitate the supply of those commodities for which there is a real and obvious demand. For surely there is all the difference in the world between an Economic Council which is working on the task of insuring that industry and commerce do respond to the steady pull of new working-class effective demand, and a council which is trying to reorganise supply to meet a demand which does not appear to exist.

Of course, in practice, the organisation of supply must sometimes be based on an intelligent anticipation of demand—as in fact it often is now. But for the general rule let us be guided by the proposition that in modern conditions, at any rate, effective demands must

<sup>1</sup> The phrase is from Mr. Dennis Robertson's admirable volume "Money" in the Cambridge Economic Handbook series.

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precede supply. And new effective demand can only be, in the last resort, the result of one of two things. (i) A general fall in prices, or (ii) the creation of new money. But, as we have seen, (i) defeats its own ends by restricting production. Thus we cannot escape the conclusion that the creation of new money is to-day an essential condition for the creation of new effective demand, and new effective demand is by far the best instrument to call out both that latent capacity for production which is immediately available, and also to force such a reorganisation of our productive and distributive resources as will gradually *make* available the vast unused capacities of world production.

But this brings us directly to the rôle assigned to the Public Banking and Credit system and to the financial side of the proposals.

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## CHAPTER VI

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#### I

So far we have considered the functions of only one of the executive institutions which a Labour Government should, it is submitted, set up for the control, and ultimate transformation, of the Capitalist system. We have spoken of the first of the functions of the Economic Council as being that of the maintenance of working-class effective demand by means of minimum-wage legislation, etc., etc. But it has not been explained how such legislation could be made effective. This will be the function of the other institution—of the Public Banking and Credit system. For it is clear that the Economic Council could not perform its functions without the close co-operation of the banks. For if such co-operation was not forthcoming insuperable difficulties would at once confront it. The reader will have already thought of these difficulties. He will be saying, "Even admitting the contention that an increase in working-class demand is an essential condition for increased production, do not the supporters of these proposals see that the whole thing is utterly impos-

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sible at the very start? It may be true that higher wages would, if they could be paid, increase demand and expand the home market. But that is a perfectly academic point, for, as we all know, it is perfectly impossible for industry to have another penny put on to its wages bill. All sorts of benefits might flow from an increase in wages, but it is idle to discuss them since we know that industry is probably incapable of paying even the present rates." Such will surely be the thoughts of any manufacturer as he tosses aside these pages on his way out to a meeting of his Employers Association, bent on reducing still further the purchasing power of the workers whose lives divine providence has committed to his charge.

In Chapter I we noticed the curious paradox which this line of argument leads to. Industry cannot pay higher wages because it is "depressed," *i.e.* is not producing enough goods and services to give a decent standard of life to the workers. But industry is not producing these goods and services because there is no "market," no effective demand, for them. But the only way to create this effective demand is to give the workers more purchasing power, *i.e.* higher wages. But this, we started by saying, industry cannot do, "because it is not producing enough." The vicious circle is complete. Under-production is the cause of poverty, since it prevents the payment of decent wages. And poverty is the cause of under-production, since it does not allow

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an effective demand for goods. And yet all this may be admitted and still we may come to the conclusion that nothing can be done. We have described the nature of the vicious circle, we have mapped every inch of its circumference, but, it may be objected, we have not shown the way out. We may have demonstrated that low wages are the cause of under-production, and that under-production necessitates low wages. But we have not shown how either *production can be increased without wages having first been raised, or, conversely, how wages can be raised until production has been increased.* All we have done so far is to suggest the creation of an Economic Council whose first object shall be to increase the effective demand for goods and services of the working classes. But we can all imagine what would happen when the Council got to work. Let us say that as a first step it recommended the establishment of a basic national minimum wage below which it would be illegal to pay any employed person.

One can almost hear the howl of execration and despair which would arise from the manufacturers. The Heavens would be rent with the protestations of their inability to pay the minimum rate. We should be told that there were not in existence enough goods and services to satisfy the demand which such wages would create. And even in the case of an extremely moderate increase in wage-rates this would probably be true of many standard commodities

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at the present moment. So miserably is the Capitalist system functioning that we are not even producing, with all our boasted scientific methods, enough goods, of the sort the working classes need, to justify paying a minimum wage based on the necessities of life. It would not be much use for us to say that even though we were not producing enough at present, yet the higher wages must be paid in the belief that the effective demand so created would increase production to a point which would make such wages "economic." The manufacturer would retort that this might be all very true, but that it did not help him, here and now, to pay the higher wage. The new purchasing power would only slowly and over a period of some months begin to make itself felt and bring him increased orders. "In the meanwhile he simply had not the money to pay the wage. His reserves had all been exhausted in the recent slump, he was already deeply in debt to his bankers, who were quite unwilling to advance him any more. In the face of such an enactment as the present he would simply have to go out of business, etc., etc." On a national scale the same difficulty arises. How is the cycle of higher wages, increased purchasing power, greater effective demand and so, finally, increased production to be got started? How are those initial weeks and months before the higher wages can cause greater production, to be tided over?

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### II

But on a national scale the problem is soluble. The individual firm cannot get credit—for *it is credit that is needed*—to start the process. But the Nation as a whole, as represented by the Government, does possess this necessary credit.

But what is credit? What does this word mean—this word which is so often and so loosely used in the economic discussions of to-day? It is not difficult to define its meaning. The national credit is the accumulated result of centuries of productive effort. It is of every kind, tangible and intangible. It consists of such things as the fact that our land is ploughed and drained, fenced and hedged, and has farm buildings on it; it consists in the fact that we have some of the greatest factories of the world, full of some of the best machinery, that we have perhaps the most highly skilled and most intelligent working population that any country has ever possessed; that we have vast stores of power in our coalfields, that our railway system is fully developed, that we know how to turn our iron ore into steel. *In one word, the national credit is directly proportionate to the national capacity to produce wealth.* Indeed we may say, for short, that credit *is* the power to produce wealth. It is simply that—nothing less and nothing more. People put credit, *i.e.* belief, in the idea that this country can produce goods and services. If her capacity to produce them is impaired, her



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credit is proportionately reduced; if her productive capacity is increased, so is her credit.

Now credit must always in the last resort be vested in the Central Government, for the simple reason that the Central Government has the twin rights of issuing the medium of exchange, "the legal tender," as it is called, and of levying taxes. This is what gives a stable and powerful executive like the British great credit. People believe that the British Government can meet the obligations which it undertakes. They believe this because they know that the British Nation can produce wealth and that the Government can collect a proportion of it by taxation. It is this great national asset of *credit* which must be used to arrest the vicious cycle of under-production, Unemployment and Poverty, and start the beneficent cycle of production to capacity, and well-distributed plenty. It is true that each industrial unit cannot pay higher wages until it produces more, and cannot produce more until higher wages have created the necessary demand for its products. But the community as a whole *can* pay higher wages out of the pooled credit resources of the country. Thus it can tide over those preliminary weeks or months until the new effective demand has increased production sufficiently to carry the higher wages.

To be concrete, the public banking system must be so designed as to be capable of providing accommodation to manufacturers in order to enable them, at the outset, to pay the increased

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wages which will be enforced upon them. This is the one way to break through into the land of plenty which our scientific knowledge and our accumulated resources have made possible to us. This is the one way to end the industrial stalemate of low wages and low production. This is the guiding principle on which the financial side of remedial legislation must be based.

It is to perform this function that the Labour Government must create its second executive instrument—a Public Banking and Credit system. In this case it is not necessary to create a wholly new institution, but only to transform an existing one, which, though to-day put to somewhat base uses, may yet serve a high purpose. What is needed is a central, disinterested and, in the last resort, democratically controlled Authority which shall control the supply of the national credit. We are well aware that this national credit, this national common stock—is limited. All the more reason that what there is of it should be used for the good of the whole community.

Now we have already got in our centralised banking system an instrument which almost exactly—except in one respect—answers to this description. But this exception is all-important. It is not democratically controlled. Indeed, the hierarchy of modern banking is as close and as exclusive an oligarchy as that which ruled eighteenth-century Venice. Its business is still, in form at any rate, that of profit-making. But,

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in fact, it is doubtful whether the directors of the Bank of England or of the great Joint Stock Banks are guided in all their actions by the consideration of what will produce the greatest dividend for that somewhat feeble body, the bank shareholders. It would probably be truer to say that *the essential function and purpose of the great Banking Trust is to-day the support and maintenance of the Capitalist order of society.* And its power is not slight.

*The bankers to-day control the flow of credit into productive industry.* They are, in the words of one of their leaders, "the universal arbiters of the world economy." It is this great credit system which the organised community must use as its instrument for unlocking the door into the New World. For, ironically enough, this centralised banking system, this latest and most vaunted creation of triumphant Capitalism, seems destined to serve as an apt instrument in the hands of the working classes, when at length they set about the task of transforming society into a workers' commonwealth. Credit is the key which can unlock the door of the new age. It and it alone can break the fetters of industrial paralysis, absolve the twice-cursed sin of poverty, and answer the riddle of co-existing destitution and unemployment. The Bank of England and the five great Joint Stock Banks must be acquired by the community. This does not mean that the banks will be made into a Government department, but simply that their

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ultimate control—the appointment of the Chairman and Managing Directors—will be at the command of the representatives of the Nation. There are many people who see the necessity for this change. Even men who oppose the general thesis of Socialism must recognise that the present great five-fingered banking monopoly has beyond doubt infringed, with its admitted *money-creating* powers, the traditional sovereignty of the State. But it is little use for the Nation to resume its money-creating prerogatives unless it is prepared to use them for the benefit of the Nation as a whole. “The Credit,” that is the accumulated common stock of instruments and reserves necessary for the production of future wealth, must be used bodily for the general good. This is the kernel of the whole question. How are we to *use* the vast potentialities of the credit system once the community has acquired it? The object which must always be kept in view is a perfectly clear one. For the present disastrous cycle of shrinking demand and dwindling productivity we must substitute the beneficent cycle of increased demand and expanding production. We have already described the essentials of such a substitution. On the one hand the wages of the working classes must be increased in order that they may exercise effective demand : on the other, production must be correlated and controlled so that it may respond adequately to that demand. But how, in view of the obvious difficulties, are these two things

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to be done? How can working-class demand be increased until production has been stimulated? How can production be stimulated except by a prior increase in working-class demand? And, finally, how can the community acquire sufficient economic power to enable it effectively to correlate and control the economic system?

We saw at once that the Banking and Credit system is the essential instrument. The uses of that system in public hands, as we shall see in a subsequent chapter, would be manifold. But here we will attempt to indicate the part which it would play in the forcing up of working-class purchasing power and the control of industry.

When the employers came to the Government with their protests against the new minimum wage rates which were about to be enforced the responsible Minister might answer them somewhat as follows: "You say, Gentlemen, that the industries which you control are utterly incapable of giving their employees the new minimum rate of wages. You are the best judges of that and we entirely accept your statement. On the other hand, the Council has decided that this rate is the very smallest first step towards a living wage which it can recommend to the Government. Therefore it is absolutely necessary for us, a Labour Government representing the people of Great Britain, to enforce this rate. We know well that the productive resources of the country are, when fully employed, far more than sufficient to support this minimum rate of wages.

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Hence nothing can turn the Government from its declared purpose of securing this rate for every worker. But at the same time we recognise the extremely grave condition into which industry has fallen under uncontrolled Capitalism, and we are disposed, if you will accept certain conditions, to give you, in the initial months, such accommodation at our public banks as will enable you to pay your employees the new legal minimum. In return for this assistance you must, of course, accept the control of the Economic Council, and co-operate loyally with it in a general policy of National Planning."

It is clear that with a legal minimum designed to call out our real productive capacity most firms would under present conditions have to seek accommodation at the public banks, and so place themselves in the community's hands. The assistance of the State would not be in the nature of a subsidy to industry. But the accommodation which the public banks would give would, undoubtedly, be in the initial months tantamount to a subsidy to wages. This point becomes clear if we examine an alternative method by which the State's assistance might be given.

Instead of granting increased accommodation to manufacturers, the banks might conceivably supplement wages, during the initial months, by means of payment to the workers whose wages were below the minimum, through the labour exchanges. Under this arrangement it is

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surely clear that the allowances are not subsidies to industry, but subsidies—or rather credits—to the worker. Their object is to give the consumer purchasing power so that by his effective demand he may set the wheels of industry turning again. Therefore the payments are directed straight to him. The fact that in practice it would be convenient for a man to draw his wages from one place instead of from two, and that therefore this “worker’s credit” might be paid through the employer, instead of through the labour exchange, must not blind us to its true character. It cannot possibly be called a subsidy to industry, for the manufacturer will have to meet exactly the same wages bill as before. He may either go on paying the old rate of wages, in which case his men will receive an allowance from the labour exchange, or he may raise their wages and receive sufficient accommodation to cover the difference between the old and the new wages bill. Which he does will not make the slightest difference to him. Thus the industrialist is neither subsidised nor penalised by the scheme. There will be nothing to add to his wages bill, nor again anything to subtract from it. Therefore it is impossible to describe the scheme as being a subsidy to industry. For “Industry,” that is the owners of industry, will receive neither help nor hindrance from it. As compared with their present position they will be unaffected. The actual effect of the proposal is this. It first imposes a

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great new obligation upon the owners of industry. That is the obligation to pay to their employees a minimum wage based on the necessities of a decent standard of life. Then, in return for the acceptance of control, it gives them accommodation sufficient to enable them to meet this sudden new liability. The State does not do this out of tenderness for the industrialists, but because it knows that productive industry has, under Capitalism, sunk to such a pitch of sloth and inefficiency that were it, as it so justly might be, suddenly called upon to meet its human liabilities to the workers, it would be unable to do so and would break down utterly. Thus unquestionably the scheme is of the nature of a crutch to industry, as compared with a mere application of a legal minimum wage without any other provision. But as compared with the position of things to-day there is no subsidy to industry.

This is an important point to get clear, for it has a practical application to an objection which is sure to be raised against this particular proposal. It will be said that it is proposed to "subsidise inefficiency." That the inefficient firm will benefit at the expense of the efficient, and that therefore all incentive to good management will be removed. The firm, it will be argued, which to-day pays its workers £50 a week less than it would have to do under the legal minimum rate will receive accommodation to the tune of £50. But the firm which pays £100 less will get £100. How then can it be said that the low-



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paying inefficient firm has not been subsidised at the expense of its better-paying rival? But let us keep in mind what additional burdens have been placed on the two firms. In the case of the firm which pays £50 a week too little the additional burden imposed by the legal minimum wage is £50 a week. Therefore, in order to leave its cost of production exactly what it is to-day it receives accommodation to the extent of £50 a week. But in the case of the firm which pays £100 a week too little the extra burden would be £100 a week. Therefore to maintain the status quo it would be equitable to allow it £100. It is at once apparent that the proposal will have benefited neither firm against the other. Their respective wages bills will remain precisely what they were. They will compete with each other on exactly the old terms. True, the increased purchasing power, which will now begin to cause a steadily increasing demand for goods, will give a new prosperity to both of them and may thus keep alive the inefficient firms which would otherwise go under. But any return of national prosperity, however it is achieved, must have this effect. And after all which will be the most likely to be able to take advantage of the new demand, the efficient firm or the inefficient? Obviously the bulk of the new business will go to the efficient firms which are capable of expansion. In this respect the scheme will actually help the efficient as against the inefficient.

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But in practice such a system of wage advances as we have described above is an unnecessarily elaborate method of applying the national credit to industry. As we have already indicated, the obvious way in which a Government would extend credit to industry would be through the agency of the banking system, so soon as that system was in public hands. The procedure would probably be somewhat as follows. The Managing Director of some great industrial firm would go to the manager of his bank. He would represent to him that the new minimum wages which had become payable in his trade meant an increase in his wages bill of £10,000 a year. He would show that he had no net profits out of which the new wages could be paid. His only hope of complying with the minimum wage legislation would be to obtain special accommodation on their score from his bankers.

The banker would, of course, be working in close co-operation with the section of the Economic Council which dealt with the particular industry in question. He would first ascertain whether the firm was co-operating with the Council in its work of National Planning. He would then ask to see the entire books of the firm in order to verify the Managing Director's statement that the new wage rates could not be paid out of existing receipts (at the existing selling price of the article produced). If this proved, indeed, to be the case the banker would agree to give him accommodation to the extent

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of £10,000 during the first year. At the end of that time the situation would have to be reviewed. The new demand created by the higher wages would have brought back full-time working and prosperity to the firm. Therefore it should be able to carry its wages bill unaided and the banker would refuse further accommodation on their score. But the whole system would be elastic and flexible. New working-class demand would benefit some firms much more rapidly than others. Indeed, some luxury-producing companies would never be benefited by it at all and they would have to be, as occasion offered, transferred to more useful fields of production. When such firms came to the banks for credit, out of which to pay the minimum wage rates, the bankers might or might not grant it. If there was an immediate opportunity to convert the labour power and plant of a luxury-producing firm on to more useful work, it would be obviously contrary to the public interest to grant credit which would enable it to carry on in its old line of business. On the other hand, there might sometimes be a case for the granting of temporary credit to even a luxury-producing business in order to prevent dislocation and temporary unemployment. In such cases the luxury-producing firm, since as we shall see in a moment its market was gradually being drained by direct taxation, would never become able to pay the minimum rate unaided, and so would become more and more indebted to the bankers,

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who would finally be compelled to come to a settlement with the company. This settlement might take the form of transferring the company's productive resources to more useful work.

Thus the bankers would have to be in close personal touch with their industrial clients. It is said that the present system is over-centralised and that branch managers have begun to lose this close touch. If this is so it might well be advisable to decentralise the system, giving the branch manager greater powers, as soon as the banks had passed into public hands.

This is the obvious, the simple method of increasing working-class demand. It may be objected that it might involve some change in the rule-of-thumb methods which, we are told, govern absolutely the actions of bankers. For after all even publicly owned banks would have to be managed, for some time, by very much the same personnel as now. Therefore the present managers would have to be taught to accommodate themselves to new circumstances. And that, it seems, is a task before which the boldest, the most revolutionary, Government might well turn pale! The idea of asking a banker to change the least item of his habitual routine, to ask "the reason why" for any of his time-honoured habits, is, it seems, a bold proposal indeed. But yet we must not allow ourselves to be intimidated by the Bourbons of the City. It is possible that the mere realisation that the shareholders to whom they were respon-

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sible were not a heterogeneous body which would always do as it was told, but were the Nation itself, as represented by its elected Government, might work great and marvellous changes. At all events we must combat what so cautious a critic as Mr. Dennis Robertson calls "the assumption that bankers are constitutionally unable or unwilling to modify, in the light of new situations and necessities, their conceptions of what the relation between reserves and loans should be. To the mere outsider it seems on the face of it rather a confession of weakness that so able and public-spirited a body of men as the English bankers should be thus enthralled by custom to a degree which would have been fatal to most of us, whether engaged on warlike or peaceful pursuits, in the vicissitudes of the last seven years."

The question is really a secondary one. Should the policy be so designed that the bankers could go on in their old grooves of habit, preserving in somewhat Robot-like activity their accustomed proportion between reserves and loans? If the policy should be so designed it may lead to a certain elaboration of detail. Or should the bankers be asked to co-operate by genuine, conscious activity? Undoubtedly such conscious co-operation would facilitate matters; and it could surely be secured by a judicious weeding out of those bank officials on whom these new duties would place an undue mental strain.

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### III

But in any case, whatever method the Government adopted, it must in the last resort provide the necessary funds for the special accommodation to industry which we have proposed. It must be in a position to create assets in the public banking system sufficient to allow that system to give the special accommodation of which we have spoken, without getting into an unsound position. This does not mean, as we shall see in a moment, that the Government must raise the whole sum which the public banks lend to industry. But it does mean that it must raise a very considerable sum. Where, it will be asked, is the Government to get the money from? There are some nineteen and a half million persons employed in occupations for gain in this country, so that even in the preliminary stage of securing a moderate minimum wage a very large call for money from the Government would be made. Certainly a proportion of the nineteen million are paid a living wage already. Again others who are paid less are employed by firms which would prefer to pay the higher wages unaided in order to avoid the special "Control" which the Government would impose in return for its assistance. Still, large sums would undoubtedly be needed, although the call for them, it must be borne in mind, would be gradual, since wages would rise to the minimum only by slow degrees. Where, then, is the Government to get the money

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from? We must now recall some of the basic principles which we deduced from our analysis of the economic situation. We concluded that we needed both an increase in the total amount of effective demand, and also a redistribution of existing effective demand from the rich to the workers. Therefore the Government, when it considered the question of the financing of minimum wage legislation, should keep before it two objectives: (1) that of increasing the total purchasing power of the Nation; and (2) that of redistributing it as between the wage earners and the property holders.

As we have seen there is no doubt that there is in the country to-day a lack of purchasing power, quite irrespective of its distribution. This "lack" of purchasing power is the essential condition of trade depression, high unemployment figures, and the general "slump." Our production of working-class commodities is abnormally low even on Capitalist standards. This means that we have a reserve of productivity, immediately responsive to an increase in effective demand. And on the admission of all competent authorities our productivity could be brought up to "boom" standards by such an increase.

To this extent, then, the public banks might give accommodation to industry out of what we may call, for simplicity's sake, new money. This does not mean that they would have so many new Treasury notes printed, and lend them to Industrialists. It simply means that they will

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make the special accommodation to enable firms to pay minimum wage rates on a slightly different basis of loans to reserves than is their custom to-day. (Nowadays the printing of notes is always consequential and secondary to the emission of credit.)

For it must be remembered that the control of the Economic Council would invariably follow these accommodations. Hence the banks could feel confident that this new money was really resulting in a corresponding amount of new goods, was not tending to raise prices, and was not therefore of an inflationary character.

All this simply means that the existing productive machine could produce, when it had been got going to capacity, this amount of extra working-class commodities without producing any less luxury services for the rich. But, as we noticed in Chapter IV, such an increase in production would lead to only a moderate rise in the standard of life of the worker. To raise it beyond this point it would be necessary to lift from industry the burden of providing for the "wants" of the rich. By far the best instrument for affecting the release of this misapplied productive effort is the imposition of heavy direct taxation on large incomes. Thus the rest of the money required for the financing of the minimum wage rates would be raised in this way. Such taxation *would cause a transference of purchasing power from one section of the community to another.* Thus while the higher wages, etc., were increasing the purchasing power of the



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worker, the increased direct taxation would be decreasing the purchasing power of the property owners. The tilted balance of industry would slowly begin to right itself. The direct taxation would certainly be, as we are so often told, "a burden on industry." But it would be a burden on exactly those luxury industries which it should be the object of all sound economic policy to "burden" as much as possible. It would decrease the demand for all these goods and services which the rich super tax and income-tax payers want. Therefore it would decrease those industries' competition with the "necessity producing" industries for the available labour power and raw materials. So long as the State does not destroy the purchasing power which it collects in taxes, but passes it on to some other section of the community, there can be no "burden of taxation" on industry as a whole. But certainly there is a "burden" on one kind of industry and an encouragement to another, which is exactly what is wanted.

### IV

The account that has been given of the administrative machinery necessary to put the Birmingham Proposals into practice is admittedly both tentative and incomplete. Particular aspects, such as the exact methods by which the Public Bank would work, will be developed by experts in subsequent publications. But it is not claimed that any private person can in the

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air devise an exact cut-and-dried scheme for accomplishing the gigantic economic revolution—for if it is anything, it is nothing less—which the supporters of these proposals believe to be necessary. Such great changes are not realised by the typewritten schedules of experts. They can only be accomplished by determined men who envisage clearly and steadily the end in view. It is the function of the expert and the trained administrator to devise those ways and means which can always be found when the executive purpose is sufficiently resolute.

The main objections which have been, and will be, raised against these proposals are dealt with in the two following chapters. But it may perhaps be useful at the end of this chapter to discuss one or two points, rather with a view to further defining the proposals than of defending them. To do this it may be useful to employ the method of question and answer. (The indulgence of the reader towards this somewhat old-fashioned and annoying method is solicited. It is employed out of desire for brevity.)

*Q.* Do the supporters of the Birmingham Proposals think that the issue of new money will under certain conditions cause sufficient new production of goods and services to balance such issue completely and thus cause no rise in prices?

*A.* It is not suggested that the issue of new bits of paper, either notes or cheques, magically and by "action at a distance" makes mankind produce more wealth. But it is submitted that

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new money is, under modern conditions, *the essential condition* of new production. *Unless it is provided any policy for increased production, whether Socialist or Capitalist, will fail.*

*Q.* But do you not think that this new money should be provided only after production has been increased—that the currency and credit of a country should be expanded only sufficiently to meet the normal expansion of production?

*A.* No. In the first place there will be no "normal" increase of production if it is forbidden to expand money until such increase has taken place. There are only two ways in which production can increase. (i) By means of falling prices. But Capitalism is now so organised that this method is obsolete, for a fall in prices itself acts as a check to increasing production. (ii) By the creation of new effective demand, "clothed and interpreted in terms of an offer of money." Therefore, to make the expansion of money dependent on a previous increase of production is to produce industrial stalemate. Advocates of this doctrine may be referred to the two commanders in the old jingle :

Lord Chatham with his sword drawn  
Was waiting for Sir Richard Strachan.  
Sir Richard, longing to be at 'em,  
Was waiting for the Earl of Chatham.

*Q.* Do you think, then, that money should first be issued in the expectation that increased production will result?

*A.* No, we do not think that the mere issue

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of new money, unaccompanied by any other measures, would cause an adequate response from production. It must be accompanied by a thorough-going Socialist policy of National Planning. What we wish to stress is that any such attempt at National Planning *must fail unless it is accompanied by monetary expansion.*

*Q.* You think, then, that monetary expansion must accompany a Socialist policy. Even granting that this is so, what is the object of linking the two together in the way you propose by wage allowances, minimum wage rates, unemployment benefits, etc., which would be paid partly out of new money. Why not simply start your Socialist Planning policy and also at the same time, but quite unconnected with it, undertake a gentle expansion of money by usual means, such as the lowering of the bank rate.

*A.* Because we do not desire a general expansion of purchasing power all over the community. Let us consider for a moment the actual effect of expanding credit by the lowering of the bank rate. Now the bank rate—as its names implies—controls the *rate*—the price that is—at which credit will be given to industry. Hence to lower it does not in itself expand credit. It merely gives an invitation to borrowers to come along and obtain increased credit at the reduced rate. But who will these borrowers be? The mere fact of a lowering of the rate means that any speculator can now obtain more cheaply the money necessary for him to buy, *and hold*, stocks of some necessary com-

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modity. When the consumers' demand for that commodity makes itself felt in the market, it is immediately found that the available stocks have been "cornered" by speculators, operating with the funds they have been able to borrow at the low rate. Thus they are enabled to hold the stocks, force a rise in prices and skim off almost the entire amount of new purchasing power which has been issued.

Indeed a lowering of the bank rate is a public invitation to speculators to acquire and hold stocks on easy terms and so force a price rise. It is to avoid this difficulty that we eschew entirely the method of credit expansion by means of a falling bank rate. Our method, *i.e.* accommodation to industry coupled with minimum wage legislation, provides for an expansion of working-class purchasing power exclusively. Further, these proposals provide for the transference of money as well as its increase. Hence, when some of the money paid in increased wages percolates back to the property-owning classes, it will be skimmed off again by increased direct taxation and redirected to the workers.

*Q.* Do you not think that the expansion of money, though perhaps an appropriate remedy during a period of great trade depression such as the present, would be quite useless in normal conditions? Hence your policy is at best one for the moment only.

*A.* On the assumptions of Capitalist society that suggestion may be a perfectly accurate one. The most that monetary policy can do,

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on these assumptions, is to turn a Capitalist slump into a Capitalist boom. But if it is joined to a comprehensive policy of Socialist reorganisation, then it can be steadily and continuously applied, since production can, *pari passu*, continuously and steadily increase.<sup>1</sup>

*Q.* But does your policy come to any more than this? You wish to subsidise wages, unemployment allowances, etc., out of the resources of the State, which at the same time is helping production to meet the new demand thus created. Now one of these resources of the State, along with taxation, profits from the Post Office, sales of property, etc., etc., would be, when the Bank of England had been nationalised, the creation of the new money which was each year needed in order to allow of increased production, without a fall in prices. But money from this particular source could not be ear-marked for wage credits. It would be merely a new and not very important source of revenue.

*A.* That is certainly an accurate, if somewhat oblique, way of describing the proposals so long as it is clearly envisaged that the creation of this new money will be no mere "sundry" in the list of Government receipts, but a really considerable annual amount—at any rate for many years. For we believe that the policy in its entirety will so considerably increase production

<sup>1</sup> Before the War the increase in the production of wealth, which took place *in spite* of there being no conscious effort towards it, has been calculated at about three per cent. per annum.

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year by year that a considerable issue of new money will be possible.

*Q.* What is the difference between the functions of your proposed economic general Council and the usual functions given to such bodies in Socialist proposals?

*A.* Simply that in addition to the usual functions of control which are suggested for such bodies it will be entrusted with the creation and maintenance of working demand by the promotion of minimum wage legislation, etc., etc. But this will alter fundamentally the nature of the task which will confront the Council. The ordinary Council would be confronted with the task of organising and correlating industries, stagnant and moribund from the lack of demand. And the only way new demand could be created would be to cheapen the price of the finished products. But the function of a Council working as a part of the proposals, would be to secure that Industry should respond to a demand which was being steadily created. It would be organising, planning, not in the abstract, but *to meet demand*. Above all, it would not have to guess at what people wanted—their desires would express themselves in an increasing demand for particular goods and services and the Council would concentrate on seeing that a supply of these was available. There is an essential difference between planning to meet a genuine, spontaneously manifested, new demand, and planning to give people what the Government thinks they ought to want.

## CHAPTER VII

### THE THREE GREAT OBJECTIONS

#### I

THREE classical and well-worn arguments are always used against any Socialistic policy. First, there is what we may call the Foreign Trade Bogey. This remarkable argument informs us that should we be so mad as to organise rationally our national resources for production and distribution, we should be, *ipso facto*, rendered unable to exchange a part of our products, as we do now, for the food and raw materials of foreign producers, which we need for the support of our population. Hence our industries would languish, our people starve and at last be driven back to seek the aid of the beneficent Capitalist, who is the only person, it seems, able to buy food from abroad. Second, there is the "incentive of personal gain" objection. According to this argument the fact that in a Socialist community the owners of the instruments of production would not be allowed to appropriate the firstfruits, would immediately cause both the hand and brain workers to cease all productive effort—overcome, presumably, by the moral shock of seeing their masters



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“despoiled” of their hard-earned dividends. Third, there is the “but how could you get on without capital?” objection. This argument tells us that under Socialism there would be no savings—since there would be no rich men with more money than they knew how to spend—and that therefore there would be no flow of new capital into industry. The whole of the national income would be spent on food, clothes, houses, furniture, etc., and none would be left for the replacement of depreciating capital. Thus the railways would wear out, factories crumble, machines go out of use, until finally nothing could be produced any more.

It may possibly be worth while going into these three arguments in some detail, for though sufficiently vague and fallacious, they have been so vigorously and vociferously reiterated by the Capitalist Press that they undoubtedly influence a great number of minds, unaccustomed to clear economic thinking. But before we enter on the discussion of these three arguments we must meet another objection which is always brought against proposals, such as the present, which involve the conscious regulation of money.

## II

### WOULD PRICES RISE?

The Birmingham Proposals will, of course, be attacked as “simply another attempt to make

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people richer by printing more money." Let us agree that they are such an attempt. For though the creation of new money is only one of the proposals, yet it is certainly an essential one. Now there is only one criterion for judging these attempts. *If they permanently increase production, then they will succeed in making everybody richer ; if they do not increase production, they will not make people richer.*

But is there not, it will be asked, some catch somewhere? How can it be possible that the real wealth of the community can be increased by any financial "juggle"? It is only possible if that "financial juggle" causes greater production. If, in other words, some better adjustment of our economic system enables us to realise some part of our great and unused productive powers. If we were producing as much as we were physically capable of producing, then, truly, no issuing of money could help us in the least. It may conceivably be argued that we actually are producing all the goods and services that the Nation has the energy to produce. That our population is so demoralised, our machinery so antiquated, our organising ability so small, that, whatever the demand, the Nation could produce no more. Then, indeed, the proposal to increase the effective demand of the working classes would not benefit the community at all. But surely none of us are willing to accept so preposterous a libel on the British people?

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Yet only those who hold this view can sincerely bring forward the gravest charge which will be brought against these proposals. For it will certainly be said that the effect of the Birmingham Proposals would be, not to increase production, but to raise prices.

Let us think what this means. According to this argument, our industries are so dilapidated that when they are called upon to produce more goods, to meet a new demand, it will be impossible to galvanise them into the necessary effort. That all the cries of our great industrialists for new markets are mere bluff: that if they were confronted with the great new market of a home population equipped with purchasing power, they would make no effort to satisfy it. For after all, *prices are raised not by new demand but by scarcity of supply*. If the demand for boots increases ten per cent. this does not mean that the price of boots will rise. If there are idle and half-idle factories, it simply means that new orders flow in, new machines are set going and new boots are made. If, however, for any reason the new demand does not result in the production of new boots, if, for instance, all the available plant and labour is already fully employed, or if the owners of the plant refuse to increase their production, then truly prices must rise. For then there will be no new boots to balance the new money and therefore the price of the existing boots will have to be put up. In other words *there will be a scarcity of boots*,

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and their price must rise in order to decide which of several possible purchasers is to have them.

The practical question is: Would either of these conditions arise if new demand for working-class commodities were created in the manner indicated above, and as one of the Birmingham Proposals? We have already seen that there are vast reserves of both labour-power and idle plant, which *could* be used to increase production. The question remains, however, *would* the present owners really increase their production to capacity, or would they seek to restrict output, create a scarcity, evade the Government control, and so put up prices? This is the only contingency in which prices could possibly be affected by the Birmingham Proposals. Prices would only rise if the Capitalists pursued a deliberate policy of ca'canny and obstruction. Would they in fact do so, and *could they*, with the Government control we have described, even if they would? Admittedly the possibility must be examined.

The first thing to notice is that in all those trades which are still run on a really competitive basis, the owners could not refuse to increase their output and so put up prices. For the distributors would naturally place their increased orders with those producers who had not put up prices. For example, the boot shops would naturally go to those boot firms who would execute their orders at the lowest prices. Therefore, so long as the increased demand was

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kept within productive capacity, as, of course, the Economic Council would insure that it would be, there could be no scarcity, and so no increase in prices. But, as we know, large tracts of productive industry are now organised not for competition but for combination. Great monopolistic corporations, or well-organised rings, control four-fifths of the output. And in these cases it is perfectly true that the owners would be able, if they so wished, to meet the new demand, not by increased production, but by rising prices. And it is certainly in these fields of production that a workers' Government would have to be most watchful and most resolute. But after all it should not be difficult to deal with an obstructive monopolist. The whole force of public opinion would undoubtedly be with the Government in such a case. If a ring of owners, controlling the production of some commodity necessary for the workers, showed no sense of their obligation to meet the new demand by increased production, they would find that their industry was the first object of summary socialisation. For these would not be the moribund industries, unable to support their workers, which a Socialistic State would ordinarily be asked to take over. They would be prosperous, well-organised trades which would become real assets in the hands of the community.

But probably the mere threat of summary socialisation would suffice to bring a trust or

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ring of employers to their senses. Thus it should not be difficult for the Government, acting continually on the advice of its Economic Council, so steadily and gradually to increase effective demand that there could under no circumstances be a rise in prices. The great monopolies might indeed attempt it, but they are not popular institutions at the best of times, and a Labour Government should have no difficulty in keeping them in order.

We may therefore feel assured that we should be able to maintain that *Stability* of prices which is an essential condition of the Birmingham Proposals. This is not to say that there might not be some fluctuations in the prices of particular commodities owing to some sudden shortage of raw material or other unpreventable cause. Thus if the tea crop failed one year it might, then as now, be impossible to prevent a temporary rise in price.

But apart from these cases, general prices would only show a rising tendency when increased demand caused a scarcity. And it would be the business of the Economic Council to see that no such scarcity should ever occur. This it would do by never increasing purchasing power unless it was clear that the Nation possessed an increased capacity to produce working-class commodities. Further, of course, it would insure that this capacity should actually be called out by the new purchasing power. This it could do by a general supervision of

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industry, by the laying in of necessary raw materials to prevent "cornering" by speculators, by the close supervision of trusts, by bulk purchases from abroad, etc., etc. In fact, by the measure which we described in the second part of Chapter V.

To sum up : the conscious increase of working-class purchasing power, involving the issue of new money, is not, in a community which is "under-producing," in any way incompatible with the stabilisation of prices. Indeed, it can only be successfully effected if it is accompanied by such a stabilisation. Increased working-class demand would only put up prices if the Capitalist owners combined together to restrict output. And if they do that they convict themselves before the whole community as utterly irresponsible and anti-social persons, from whom every vestige of economic power must be removed by summary measures. Indeed, nothing could so effectively substantiate the Socialist case as a sort of Capitalist strike. If the owners of the instruments of production made it clear that the only terms on which they were prepared to allow those instruments to be used were those of unlimited profit to themselves, they would awaken the Nation to the urgent need of socialisation in the most graphic manner imaginable. Nothing could then prevent the early passage of comprehensive Socialist measures supported by a determined public opinion.

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## III

### THE FOREIGN TRADE BOGEY

We now come to the first of the three stock objections which are always brought against any Socialist policy. It has been, and will be, brought against the Birmingham Proposals. We have called it "the Foreign Trade Bogey." Mr. R. H. Brand, the well-known financier, has stated this case in a controversy with Mr. Oswald Mosley in the Letter Columns of *The Times*. He wrote, "Moreover our main problem is our languishing export trades, the depression in which reacts again on our home trades. I cannot see how an increase in internal purchasing power would even temporarily help us to sell our goods abroad against Germans, Belgians and others." Behind the idea expressed in these sentences lie a whole complex of economic assumptions and loosely thought-out arguments, which we must dissect carefully if we are to get clear the true relations of purchasing power, Socialist organisation, and foreign trade.

One often hears from Conservative platforms, or reads in the leading columns of the "responsible" Press, an economic argument which illustrates exactly this attitude of mind. It is said that a nation, like an individual, can only live by "serving the needs of the world." Thus if this country is to survive she must produce commodities of such a kind as the



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world needs, and at such a price as the world can pay. If there is to be any hope of increasing the general standard of life she must produce more of these commodities and produce them cheaper. Nothing but this can win back prosperity. Any "tinkering with money" can at best only influence the home market. And this is utterly futile, "for we cannot live by taking in each other's washing."

In this form, the argument has a certain air of reasonableness. But there are some defenders of Capitalism who are quite prepared to carry it to its logical conclusion. Thus the City Editor of *The Times*, again in controversy with Mr. Oswald Mosley, committed himself to the view that the more goods we produced and consumed at home, the poorer we become. He told us that "a larger production and exchange of domestic manufactures and services" might tend to deprive us of "the necessaries of life." Certainly such a conclusion follows naturally and logically from the whole "taking in each other's washing" view of economics. But it is courageous of the City Editor to face the fact. Like Plato, he "follows the argument wherever it leads him."

For surely the most trustful of students must begin to feel that there is something wrong with an argument which teaches him that the more cabbages he grows in his garden, and eats on his table, the poorer he becomes. In fact, of course, the City Editor has done the whole process of

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*reductio ad absurdum* for us<sup>e</sup>. He should apply his theory of the uselessness, nay the positively detrimental character, of home trade to the everyday life of his own home. Thus, if he made himself a new book-case and filled it with his library of economic literature, he must remember that he is so much the *poorer* for his new possession—for he has produced and consumed it at home. Or if his hens should begin to lay more eggs and he eats the resulting omelettes, he will again have suffered irreparable economic loss, for were not the eggs both produced and consumed at home?

There seems to be a fallacy somewhere. Unfortunately for those engaged in disinterring it, it lies at the very root of the whole argument. The truth is that a Nation is *not* like an individual and it need *not* live by "serving the needs of the world." Our main problem is *not* our languishing export trades. It would *not* make us poorer to produce and consume more goods at home. Let us try and justify these three denials.

It is true that in an organised community, an individual usually does live "by serving the needs of the world." He has, as it were, a sort of contract with mankind under which he undertakes to apply his productive capacity to the task of helping to satisfy one of its needs—for instance, if he is a furniture-maker, its need for tables and chairs. In return, mankind agrees to supply him with a sufficient quantity of *all* the goods and services which he needs to enable him

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to live. But even in the case of the individual, this is not the only way to live. The Russian peasant, as Lenin learnt, has no necessity for such a contract. He lives, albeit in poverty, by producing and consuming what he needs at home. He taught us that in some cases, at any rate, even the individual need not live by serving the needs of the world.

How completely misleading it is, then, to apply the analogy of the individual to a whole nation. The only reason why it is admittedly far better for the individual to live by serving the needs of the community in which he lives, and not by making himself self-supporting, is to secure that division of labour, that specialisation of function, which makes civilisation possible. But is it seriously contested that we cannot have complete specialisation of function, a complete division of labour, within a community of forty-five million souls? Frankly, we are not so passionately internationalist as our City Editors or as our successful financiers. We should be content to regard the object of British industry and production as the humble and straightforward one of *satisfying the needs of British men and women*. No doubt it is very fine and impressive to talk of "serving the needs of the world," but before we embark on these great ideals we suggest that it might be as well to "serve the needs" of the poverty-blighted millions of our own population.

And we suggest that the best way of finding

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out what they need is to see that they have money in their hands, so that they may set up a demand for particular goods and services. But we are told that this is all futile, since it will be merely "taking in each other's washing." If a boot-maker in Nottingham buys a shirt from a textile house in Lancashire and the shirt-maker a pair of boots from Nottingham, the transaction will have made them, according to our City Editor, both poorer, for the goods will have been produced and consumed at home. But if only the boot-maker had exchanged his boots with a Rhineland shirt-maker, and the Lancashire man had got his boots in Belgium, all, we may suppose, would have been well. But as it was, they both committed the unforgivable sin of trading at home, and so were merely "taking in each other's washing."

This is, of course, the doctrine of Free Trade, gone raving, tearing mad, and all the more remarkable in that it is stated by *The Times'* City Editor, who is probably a strong Protectionist!

In short, those individuals whom we call a nation do not live by "serving the needs of the world." They live by serving, and satisfying, *their own needs*. And the most direct and obvious way of satisfying those needs is to make the things they need *for themselves at home*.

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### IV

But that is not the only way in which people can satisfy their needs. Instead of making the things they need for themselves, they can make other things which they do not themselves need, but which foreigners do need. And then they can exchange these goods, with those foreigners, for what they want. In a word, either for a nation or for an individual, there are two ways of getting anything you want. You must either make it yourself, or you must make something else and exchange it with someone who has got the things you want. *Which of these two ways you choose is purely and entirely a matter of expediency.* And if only there is no arbitrary attempt to decide in advance which course shall be adopted, we may rest assured that the most economical course in each particular case *will* be adopted—since we shall buy in the lowest market and sell in the highest.

This was the great and fundamental piece of analysis by which Adam Smith laid the foundations of the Science of Economics. English politics have been distinguished by the fact that there have always been enough men in public life capable of following this basic piece of reasoning, to prevent the imposition of a Tariff system. But, unfortunately, it seems that we are finding it increasingly difficult to see clearly and calmly either the importance or the limitations of this doctrine of Free Trade. Such

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neo-Free Traders as Mr. Brand seem so proud of having grasped the fact that it is often *advantageous* for the Nation to get what it wants by the indirect method of making something else and exchanging it with foreigners, that they have leapt to the absurd conclusion that it is *necessary* to do so, and that therefore production and consumption at home are useless.

### V

But, while we reject this parody of the great classic doctrine of Free Trade, we must not fall into the opposite absurdity of Protection.

The neo-Free Traders say that you must always get the things you want by making something else and exchanging it with a foreigner, for otherwise you are "taking in each other's washing." The Protectionist, on the other hand, says the exact opposite. He supposes that it is always better for the Nation to make the things it wants at home and never to make other things and exchange them. He sees the arrival of imports with the utmost alarm, and shudders when he hears that the foreigner is prepared to sell cheaply to this country. The truth is, of course, that it is quite unnecessary for either of them to worry their heads about the matter, one way or the other. So long as people continue to buy as cheaply as possible, and to sell as dearly as possible, so long will they satisfy by production at home those of their wants which it is most

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economical and efficient so to satisfy—and those of them, by the method of trade with foreign countries, which it is best to satisfy in that way.

The doctrine of *laissez-faire*, which has been found to work so disastrously in almost every other aspect of economic life, has, in fact, been found to work well in this secondary matter of deciding which of our wants we shall satisfy by Home Trade and which by Foreign Trade. Accordingly, the Conservative Party, so unalterably opposed to interference with private enterprise at any other point, has singled out this particular matter as being suitable for State control and interference by means of a Tariff system. The situation would be ironic if it were not tragic. Faced with the emergency of starvation in the midst of potential plenty, our Protectionists come to us with the helpful suggestion of producing and consuming rather more at home and buying and selling rather less with other countries. We must decrease our Foreign Trade by at least the amount which we should increase our Home Trade, for the decrease of the former will be the only cause for an increase in the latter. In no conceivable circumstance can there be a net gain of real wealth. The remedy has about as much to do with the disease as five o'clock has to do with the equator. There is absolutely no object in increasing the proportion of Home Trade to Foreign, or vice versa. The ratio between the two looks after itself automatically. What we

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want to do is to increase *both* Home Trade and Foreign Trade enormously. And this is precisely what a steady increase in working-class purchasing power will do.

A friendly critic of the Birmingham Proposals prepared a memorandum on this subject, in which he examined the typical working class budget, and suggested that a high proportion of working-class demand was for imported commodities, such as food. He suggested therefore that little good would be done to British labour if working-class purchasing power were increased, since this would result in an increased demand, not for British produced goods, but for imported foodstuffs, etc. He overlooked the point, of course, that if you raise a man's wages by £1 a week, he does not spend the extra £1 in adding to his food supply, on which he had to spend most of his former earnings, but in getting new commodities and comforts such as better boots and clothes, better furniture, household articles and "comforts" generally—an innumerable list of *manufactured articles*, which are mostly produced at home.

But let us suppose for a moment, fantastic as such a supposition is, that one hundred per cent. of working-class demand is for imported goods, and that one hundred per cent. of any new demand created would also be for imported goods. It is not difficult to show that the Birmingham Proposals would work equally well in such circumstances.

When the new money came into working-



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class hands, its recipients would set out on the endeavour to satisfy their economic wants with it. In plain words, to buy the things they needed. Now, on our supposition, all the things they want would be imported goods. Therefore, the Nation could not take the direct method of satisfying their wants, *i.e.* that of making the things they wanted at home. Hence, it would have to take the indirect method, *i.e.* that of making something else which foreigners want and trading with them. And, in fact, this is what would happen. But could it? will say the reader. For even if he has agreed with all this in theory he will want to know how it would work in practice. He may agree that imports must be paid for by exports, and consequently that an increase in the former should result in an increase in the latter. But how in practice would it do so? How could increased buying from abroad by the British working classes result in increased British exports? After all, nobody, he will say, can increase the buying power of the foreigner. Of course, the proper answer is that you do increase the purchasing power of the foreigner by buying his goods. For then, with the money you have paid him, he can buy your goods in return. For trade is always, directly or indirectly, reciprocal. But still the sceptical reader will want to know how the process actually works.

How then, in practice, would "our languishing export trades" receive the benefit of increased imports? To answer these important questions it is necessary to examine for a

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moment the question of Foreign Exchanges. Everybody knows that by Foreign Exchanges is meant the rate at which the money of one country will buy the money of another. Thus if £1 will buy 100 francs we say that the exchange rate of the franc is 100. Or if 4.86 dollars will buy £1, we say that the £ is "at" 4.86.

Now what would happen if, on our supposition, the working classes used their increased purchasing power exclusively to buy foreign goods? Clearly the figure of our imports would rise. Therefore, what is called "the balance of trade," which simply means the ratio of exports to imports, would move "against" us. Let us say that, allowing for "invisible exports," foreign investments, etc., etc., our imports and exports were each worth £100 (we will leave out the millions). Then the increased buying power of the working classes causes us to buy more from abroad. Therefore we shall now import goods to the value of £150. But we are still only exporting goods to the value of £100. Obviously this cannot last. Nor will it. We shall be running into debt with foreign countries to the tune of £50 a year. Therefore, the national credit will begin to decline. At once there will be a reaction on the foreign exchanges. The pound will become worth not 100 francs but 90, not 4.86 but 4.50 dollars. In other words 90 instead of 100 francs will now buy £1 —and so one pound's worth of goods. Therefore, English goods will have become cheaper for the foreign buyer, although their price remains

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stable in terms of British currency for the British producer and exporter, *i.e.* the British price-level has not risen. In other words our export trade is directly stimulated. The purchasing power of the foreign buyer is increased because the fall in the pound makes all British goods cheaper for him. Hence our exports begin to increase until they reach £150 and so once more balance our imports. Thus equilibrium is once more reached and the fall of the pound arrested. As a matter of fact this process of the automatic balancing of imports and exports by means of movements of the exchange, acts rapidly and effectively. For when the pound falls, not only are British exports cheaper for the foreign buyer, but, of course, our imports, if they are not covered by long-term contracts such as the Economic Council would have arranged (they would be payable in sterling) in the case of foodstuffs and essential raw materials, become proportionately dearer. Therefore, there can be no conceivable danger that our exports and imports should not balance. Any increase in imports must by its direct reaction on the exchange lead to a proportionate stimulation of exports.

When we say that it "must" stimulate exports, we do not, of course, mean that increased imports magically increase our exports without our having to take the trouble to produce and sell them. But what we do mean is that increased imports do create a market which our export industries can take

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advantage of, if they are in a fit state to do so.

In other words increased working-class effective demand, when it is operating through the indirect method of increased imports, and so wider markets for our export trade, can have one of two effects (just as it could in the case of home trade). *It can either stimulate increased production and so add to the general wealth, or it can merely increase prices and therefore do no good to anyone at all.*

For if our export industries were too inefficient to take advantage of the wider markets which increased imports would open up to them, then, of course, all that would happen would be that the *prices* of those imports would rise against us, and our new money would do us no good, for we should have to pay more for everything.

But if our exports are increasing *pari passu* with our imports, then the foreign-buying power of the pound will not be affected and we shall actually be able to buy, if we need them, more foreign-produced goods.

Hence just the same measures of correlation and control will be necessary in the export industries as in the home-producing ones, to ensure that they really do respond adequately to increased effective demand—or, as it would be called in their case, to “new markets.” Indeed the only conclusion that can be arrived at is that the whole foreign trade discussion is a gigantic irrelevance. If only the foreign

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exchanges are left free to correct trade balances, we may rest assured that new purchasing power can only satisfy itself, if prices are kept stable, by increased production at home. Whether it does so by the direct method of increasing the home demand for home production, or by the indirect method of increasing imports and so, by the mechanism of foreign exchanges, increasing the foreign effective demand for exports, is irrelevant. In fact, of course, it will do both. The ratio of increase between the two is perhaps a matter for academic speculation, but it is quite unimportant.

*We may, in fact, lay it down as an axiom that if purchasing power is equal to productive capacity, then all labour power and resources will be fully employed.*

Indeed, as soon as it is stated this proposition is seen to be a truism. Whether our workers and our "plant" are engaged in satisfying our purchasing power directly at home, or indirectly by the method of foreign trade, is quite immaterial. It is obvious that we cannot consume more than we produce; for that would imply a philanthropic conspiracy on the part of the rest of the world to support the British Nation in idleness, to send it every kind of commodity without asking for anything in exchange. On the other hand, it is equally obvious that we cannot produce more than we consume, for that would imply that we were willing to send out goods to the rest of the world without receiving anything in return. If we are content to look

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at the question always in \*term of goods—of barter and exchange, putting money out of our minds altogether, the true position is obvious. Or again, if we look at the question consistently in terms of money, then, although the mechanism of foreign exchanges may be complicated, it is not really difficult to trace out the way in which the thing works. For money, though it is but a symbol, a token, yet expresses perfectly the reality of barter on which it is based and gives, as in a mirror, a true reflection of the state of affairs. But what causes unutterable confusion is to argue first in terms of money and then in terms of goods—to assume in one sentence that the object of trade is to collect money and in the next, to obtain goods and services. (We shall see more of the results of this confusion in the next chapter.) It is this indecision as to the object to be aimed at which makes all Protectionist arguments so convincing to Protectionists and so maddening to Free Traders.

Protectionists will, of course, pay lip service to the idea that the object of industry and commerce is to obtain, not *money*, but a supply of the goods and services required. They know *in theory* that wealth does not consist in heaps of money but in goods and services and the capacity to produce them. But they do not really apply this knowledge. They cannot help feeling that imports are an unpleasant necessity; that money is being “drained out of country.”

In their more hectic moments they cry with

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Joseph Chamberlain that we are "bleeding to death." They dream of a paradise in which there shall be no imports, but only exports. Then money will pile up gloriously in those paradisaical banks, for the foreigners will only be able to pay for our real exports in money, *i.e.* tokens. But no impious hand shall ever take that money and use it to buy things from abroad. It shall lie for ever in the banks as a proof of the riches of that paradise. And if ever there should arise any superficial signs that all is not well, signs such as a destitute or a starving population, the Protectionists will point to their hoard of golden tickets as an assurance that all is really well. But perhaps in Paradise men will have learnt to eat gold.

But until then, this conception—which is really at the root of all Protectionist thinking—this idea, that the acquisition of money is the object of commerce, is simply an interesting modern case of fetish worship. (The Sir James Frazer of a future age will no doubt lecture on this twentieth-century "Golden Bough.") Money is, indeed, the most useful thing in the material world. But it has only one use. And that is to purchase goods and services. In other words, you can only do one thing with money, *i.e.* spend it. To hoard it indefinitely is, for man or nation, simply a mania for ticket collecting. To insist on exporting goods abroad and being paid in money which you refuse to spend on imports *from* abroad is but a symptom of national imbecility. It is as if a lunatic

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bought tickets on all the railways and then refused ever to travel again in case he used them up. There is no reason to suppose that, from a strictly economic standpoint, there is any difference in buying goods produced by a firm in Lyons to those produced by a firm in Nottingham. The economic interests of the Nation will always be best served if it buys and sells in the market most advantageous to it. In fine, it is quite immaterial whether increased working-class purchasing power should result, on the whole, in an increased demand for home-produced goods or for imported goods. In either case production at home will be equally stimulated. What really matters is the creation of a strong, calculable and persistent *effective demand* for commodities on the part of the population. Then, either directly or indirectly, our productive energies will be drawn out to their full extent. Our factories and our workshops will be running full time, our unemployed millions will be working again. Whether they are engaged in producing goods for the home market or in producing exports which are needed to pay for our increased imports does not really matter tuppence.

The policy of Protection is, indeed, the exact opposite to that of the creation of effective demand. The one is a policy of a steadily expanding market, the other of a steadily contracting one. Under a tariff system nobody gets any more purchasing power. All that is affected is the way in which they are allowed



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to satisfy the miserably small amount which they have already got. The Protectionist employer tells his workers that they must not buy from abroad, but must only buy such goods as he sees fit to produce for them. Thus they are to give him by their votes a position of impregnable monopoly. Then he may consider the question of reducing their wages no further. Protection is indeed the crudest of all Capitalism's confidence tricks. The workers are to reinforce with their votes the economic power of their masters and then wait, with their eyes shut, for what the good Capitalists will give them! As a matter of fact, of course, there is not the faintest evidence to show that the property-owning class would, under Protection, be any more willing to share their wealth with the workers than they are under Free Trade. Indeed, as the only conceivable result of Protection would be to decrease the general amount of wealth, it is more than likely that the property owners would actually give an even smaller share to the workers than formerly. Protection must put up the price of imported goods, or else it does not protect. Therefore the cost of living must rise. Therefore everybody, if they are to hope to maintain even their present standard of life, must work harder for longer hours. Protection causes economic waste and therefore makes it necessary for everybody to put forward greater efforts in order to satisfy their economic wants.

But in the crazy world of Capitalism there

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is actually a certain appearance of advantage in doing this. If you have a million and a quarter completely idle people it may be argued that it is a good thing to arrange your economic system so badly that to reach even their present standard of life everybody must work. A simpler way of doing the same thing would be to destroy all machinery, as the people did in Samuel Butler's "Erewhon," and return to hand-production in everything. That, undoubtedly, would "make work" for everybody and so solve the unemployment problem. Indeed, Protection is really a kind of machine-breaking; a tariff damages the delicate and beautiful mechanism of foreign trade by which two nations mutually enrich each other by exchanging their characteristic products. But Capitalism has admittedly come to such a pass that it is quite unable to distribute the products of modern machinery. Therefore, were we irrevocably committed to Capitalism, there would be a great deal to be said for Protection. It would make everybody poorer because it would hinder production and exchange. But to make and keep people poor is the first necessity for a fully exploited Capitalist community. Therefore, Protection might well bolster up the Capitalist system in this country for a few years.

This is, of course, the strongest reason of all why Protection must be fought to the last by the working classes. It would make everything they need most more expensive, it would

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contract, instead of expand, their purchasing power, and so rivet more firmly than ever the chain of their masters upon their backs. The way out to the freedom of Socialism lies in the expansion of working-class purchasing power. Anything, such as Protection, which contracts it, must be a step in the wrong direction.

In fact, increased working-class purchasing power can either (1) increase the demand for home-made products, or (2) increase the demand for imported goods. In either case it will call out our productive capacity to precisely the same extent. In the first case it will do so by increasing home trade, in the second by increasing foreign trade. For you cannot increase imports without increasing exports to the same extent. It may, indeed, be argued that it would be preferable for the increased demand to be for foreign goods; this would stimulate production in our export trades rather than in home producing trades. For it is these export trades which are most depressed at the moment and so could most easily respond to increased demand, absorbing the trained labour which is to-day unemployed. The practical way in which imports make exports is by altering the balance of trade, thus making the pound cheaper in terms of other currencies. This in turn makes British goods cheaper for foreign buyers, thus increasing exports.

So long as this mechanism is not interfered

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with it will work smoothly. But there is another method—and one even more pernicious than tariffs—of interfering with it. This is to attempt, as we are doing at the moment, to prevent the foreign exchanges responding to the real international trade position. We are engaged at the moment in artificially bolstering up the pound in terms of dollars. Thus we have achieved, and are desperately striving to maintain, a position in which the pound will buy more dollars in America than it will commodities at home. The external purchasing power of the pound has become greater than its internal purchasing power. This, of course, makes everything we import cheaper: but at the same time it has made all our exports prohibitively dear to foreign buyers. The only way we can alter this is by increasing the home purchasing power of the pound, *i.e.* by decreasing our own price-level. To do this we must decrease the cost of production. But the only way, in the opinion of the employers at any rate, to do this is to cut down wages.

This is the immediate cause of the present severe trade depression, increase in unemployment, and crisis in the coal trade (see Sir Josiah Stamp's addendum to the report of the Committee of Inquiry into the mining dispute). The depression of sterling relative to the dollar was the natural expression of the new world economic situation which has arisen, whether we like it or not, as a result of the giant growth of America, and of the War.

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Our attempt to restore the pre-war position by artificially raising the sterling exchange to parity was about as sensible as the attempt to force up the mercury in a thermometer in order to heat a room. And, not unnaturally, such an attempt has left us in a state of profound and disastrous economic confusion.

The Birmingham Proposals for increasing the purchasing power of the working classes would not interfere with the exchanges one way or the other. In fact they involve the abandonment of the present attempt to "peg them down." Therefore the pound would remain at its natural level in terms of other currencies. If new working-class demand resulted in greatly increased imports, and for some mysterious reason our export industries were unable to take advantage of the market which was thus opened up to them, the pound would, it is quite true, tend to fall. Therefore our imports would get dearer and our exports cheaper. But is not this exactly the effect which is always claimed for a general tariff? The truth is that a falling exchange is the only automatic and scientific form of tariff. Imports are discouraged, and home production stimulated.

But it must not be thought that there is any reason to suppose that the proposals would have any such effect as this. New exports would balance any increase of imports which the new purchasing power might bring.

If for some reason we could not increase our exports we should automatically have to

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we accept their hypothesis, that under no circumstance can the purchasing power of the working classes at home be increased, then, indeed, foreign trade becomes the first essential. If the reader will carry his mind back to Chapter III, he will recall that we found that the export of "surplus value" was the only conceivable way in which the owners of the means of production could turn their vast surplus of, to them, useless commodities into the fluid "money wealth" which they wanted.

The Capitalist cannot create an effective home market. For him the function of industry is not at all the satisfaction of the needs of the Nation. On the contrary, for him the essential function of industry is the making of profit. Any attempt to create an effective home market must mean the sharing of that profit with the workers. This he is quite unwilling to do. Therefore, Capitalist propaganda increasingly attempts to concentrate attention upon export trade. For its alternative, an effective working-class demand at home, would interfere with the great Holy Trinity of Capitalism—Rent, Interest and Profit.

## VI

### THE INCENTIVE OF PERSONAL GAIN

We called the second of the stock objections to Socialism "The Incentive to Personal Gain" argument. It will, of course, be used

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against the present proposals. It will be said that they would destroy, both for employers and employed, the whole incentive to increased production. Maintenance allowances to the unemployed, minimum wages to the employed, will make everybody, it will be said, into a slacker. What is really meant, of course, is that under these proposals the workers will no longer be compelled by economic necessity to accept work on any terms, and under any conditions, which the owners see fit to offer them. And that, of course, is quite true. But why it should be supposed that better wages, decent conditions, and proper hours, should make everybody suddenly unwilling to work at all, is not apparent. As to the maintenance allowance to the unemployed, the labour exchange, then as now, will, of course, have the right to cut it off if a man refuses employment for which he is fitted. And anyone who has the slightest knowledge of any industrial centre will know how strictly, and indeed how severely, the labour exchanges sometimes exercise this right.

The other side of the objection—that the employers will refuse to work if their right to make unlimited profits is infringed in any way, is worthy of more attention.

Undoubtedly, a strike of property owners is a possibility which a Labour Government will in any case have to be prepared for. Much, however, would depend on the character and the initial presentation of the Socialist case. In the case of the Birmingham Proposals the

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first action would be the enforcement of graduated minimum wage-standards based on the elementary human needs of men and women. This would surely be a demand which the employers would find it difficult to resist directly. What they would do, of course, would be to protest their total inability to pay. But here the Government would step in, not to add yet further to their burdens, but to help them. It would come forward with an offer to finance them (on condition they accepted control) through the first difficult months, in one or other of the ways suggested in the last chapter.

Either proposal is, in fact if not in form, an infringement of the "right" of unlimited profit making. This must be admitted. But, after all, that infringement would only be imposed as the condition of Government assistance in a crisis. The applicable precedent is the financial crisis of August 1914 when the Government had to step in to the support of the banks with the national credit. But the Government did not then, of course, impose any control or condition on the banks.

Would there be any danger that the employer would refuse, in such circumstances, to increase production, when the new demand, produced by the high wages rates, began to make itself felt? We have already considered the steps which the Government would take in order to guard against this danger. There are various considerations, however, which tend to show that



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they would not prove necessary. In the first place if profit were the only inducement for production it is doubtful whether we should have a single basic industry left in working order. Many Capitalists themselves recognise that the day of great profits in the basic industries, such as railways, mines, steel production, and shipbuilding, are over. They realise that if these industries are to continue at all they must be run, in fact if not in name, as public services. This does not mean that the employing classes either do, or would, run them for love. They run them for their very comfortable salaries. Our basic industries are no longer run by their owners, that is the shareholders in the various companies which control them, but by skilled managers who receive large fixed salaries. These salaries need not be affected by the present proposals, one way or the other. Why it should be supposed that their recipients would all suddenly cease work because a limit had been set to the dividends which they might distribute to their shareholders, is again not apparent.

\* \* \* \* \*

Lastly, apart from these theoretical objections, it may be said that the whole policy is quite impracticable, since it involves the inspection and control of literally thousands of individual firms. This would necessitate a whole army of new officials whose support would be an intolerable burden on the community. But those who make this objection forget that an organisation exists which is

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already dealing with almost all the industrial firms in the country individually. The great banks, with their branches in every town, to-day grant accommodation to, and often control, individual companies. No great new national organisation need be created, if the five great banks are fused into one Public Banking System.

The case of the Economic Council is similar. Undoubtedly it would be a large and important body. But it would make possible the suppression of a perfect network of extemporised departments and services which are at present attempting inefficiently to perform its functions.

## CHAPTER VIII

### SAVING AND SPENDING

#### I

WE called the third stock objection to all Socialist policies the "where would you get the capital from" argument. As applied to the present proposals it will take some such form as the following:—

"You propose in one way or another to issue what are really 'consumers' credits.' With these you hope to make everybody richer by increasing the production of goods and services. Now even admitting—which, of course, we do not really do at all—that this might actually happen at first, yet your policy would soon break down because you would have no *capital* left for even the present scale of production, let alone for much more. If you use up the national reserves in consumers' credits you will have none left for producers' credits. And credit is an essential for industry." We need not enter into the question of whether the Birmingham Proposals involve the issue of "consumers' credits" as the term is usually understood. What is proposed is, by assisting and controlling industry, to raise the wages of its workers, while at the

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same time large incomes are subjected to high taxation. If this process is called the issue of "consumers' credits" let us accept the term.

In order to answer this objection adequately it will be necessary to examine two related questions. First: The nature of capital and credit. What are they, and are they the same thing? Second: What is saving and what is spending? And has either of them any relation to capital or credit?

As to the first question, it is necessary to get proper definitions of the two words capital and credit. For even the highest of the King's Ministers does not, if we are to judge by his public utterances, perfectly comprehend the meaning of these words. The present Prime Minister remarked in the House of Commons that there was a terrible amount of misconception in this country about capital, which was really only the savings of rich and poor alike. We agree as to the general misconception. But whether Mr. Baldwin's speeches do very much to clear the question up, must remain a matter of opinion. In another speech, for instance, he began by telling us that what was needed by industry was, above all else, *cheap capital*. He then passed on to the financial policy of his Government and to a defence of the restoration of the gold standard, which he agreed might involve a high bank rate. But, he said, in his opinion a high bank rate was one of the best things in the world for industry.

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Now the bank rate, roughly speaking, controls the rate of interest at which the banks will advance credit to industrial undertakings. A high bank rate means dear credit for industry, a low one, cheap credit. So we find that Mr. Baldwin took the view that what industry needed was *cheap* capital and *dear* credit. Hence he evidently regarded capital and credit as perfectly distinct and different things, for otherwise his statement was a mere contradiction. It is all the more urgent, since the mind of our national leader is in this condition, that we should try and form some definite view of these somewhat puzzling questions.

We have already, in Chapter V, said that credit is directly proportionate to the national capacity to produce goods and services. And, *pace* the Prime Minister, capital is exactly the same thing.

The sum total of our instruments of production—from a manured allotment to the Great Western Railway—is the capital of the country. And it is also the basis of the credit of the country. People put credit, that is belief, in the idea that the allotment will produce cabbages and the Great Western Railway, a train service. Double the size of the allotment and make a new railway, and you will have added to the capital of the country because you will have increased its capacity to produce goods and services. In exactly the same way you will have increased the credit of the country, for now people will put belief in the capacity of your new capital assets to produce further goods and services. Hence

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the terms capital and credit are almost interchangeable. And wherever either term is used its meaning must be understood as the national capacity to produce goods and services.

This identification of capital and credit was implicit in the third objection. For we were told that the issue of consumers' credit would decrease the amount of capital left for the support of production. The next question, then, which must be answered is: Is there a fixed and definite amount of capital or credit in the country which, if it is used in one way, cannot be used in another? As we have defined them both as the capacity to produce, it is clear that there can be only a limited annual supply of them. For obviously there is each year some maximum of national production which cannot be exceeded. (Whether we have ever even approached that maximum—whether, that is, we have ever made anything like full use of our capital or credit—is, of course, another matter.)

If, then, there is only a limited amount of credit—we will use this term—available each year, is it not then true to say that the more you use of it for consumers' credits the less there will be left for producers' credits? The answer is: *Yes, unless your use of a higher proportion of the national credit resources for consumers' credits so increases your total credit resources (your total production of goods and services) that the lower proportion left for producers' credits is a higher net amount.*

Naturally this could only be so when, as now,

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you were using only a small proportion of your credit resources, *i.e.* your capacity to produce. Thus another way of putting the point would be to say that consumers' credits would not decrease the present amount available for producers' credits, since they would be taken from credit resources which we were not now using at all. This is in fact what the Birmingham Proposals would do.

But in order to demonstrate this point it will be necessary to examine how credit resources, or capital assets, are created. As Mr. Baldwin says, capital is the result of saving. But what does saving mean? Does it mean putting a certain sum of money away in a stocking? Hardly that. Again, what does spending mean? Simply throwing so much money down the drain? Hardly that. We must consider for a moment this question of saving and spending, for we shall find it very closely related to that of available capital and credit. Indeed, the objection from which we started this whole argument might have been stated quite differently as follows: "Your policy will give the working classes more money to spend; at the same time it will take money from the rich which they would have saved. Therefore it will result in a great and disastrous increase in the proportion of national spending to saving." (This, though it may not seem so at first glance, is really the same objection stated from another point of view.) But, as we have asked above, what *are* spending and saving—and is it always better to save than to spend?

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Now, as we have already suggested, an economic argument can be validly conducted on one or other of two planes. It can either be conducted in terms of the realities of economics, *i.e.* goods and services, or in terms of the units of measurement which we have applied to these economic realities. These units of measurements are simply the units of money—pounds, shillings and pence. But we must never, never forget that their only significance is as units for measuring goods and services—that by so many pounds we *always* mean so many pounds' *worth* of goods and services. If we do remember this we can quite as well, in fact often more conveniently, talk in terms of money as in terms of goods, *if we do so consistently*. For we shall find that every distinction in the shadow world of money is the counterpart of a real distinction in the real world of goods.

Let us, however, for greater clarity, conduct this argument in terms of the underlying reality—in terms of goods and services. What, then, is the distinction in the world of goods and services, corresponding to the distinction between saving and spending in the world of money?

Now a nation's productive resources may be used in two ways. The nation can either produce goods and services which are immediately needed by consumers, and so will be used up as they are produced, or it can produce things which are not in themselves consumable, but which are necessary for the future production of goods for consumption. For example, the nation can either



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use its productive capacity to make so many million suits of clothes and run so many thousand trains along its railways, or it can make a million less suits and put up new textile factories—run a thousand less trains and build a new railway. It can either produce such things as food and drink, clothes and fuel, which we need for consumption, or it can forge machinery, drain land, bore coal mines, produce things which we do not need and cannot consume in themselves, but which will in future be wanted for the production of needful things.

Now we say that that part of our productive capacity which is directed to the production of the first sort of things is *spent* and that part which is directed to the production of the second sort of things is *saved*.

It may give us something of a shock to realise that this is the sole distinction between saving and spending. But money which is saved cannot be “laid up in a napkin”; it is simply spent on this secondary or “capital” kind of goods, while the money which we ordinarily regard as “spent” is spent on primary goods for consumption.

Indeed, this distinction between primary goods (which are the ultimate products of industry), and secondary goods (which are only instruments for the production of primary goods—means to an end in the industrial chain) is fundamental. It is just as fundamental as the distinction between saving and spending. *In fact it is that distinction expressed in terms of the real world of*

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*goods and services instead of in terms of the shadow world of money.*

Once this correspondence between primary and secondary goods, and saving and spending, has been realised, it becomes clear that a nation cannot either spend or save one hundred per cent. of its income. If it spent the whole amount its annual income would decrease each year, for its capital assets (which are really only our old friends the Marxian "instruments of production") would depreciate. If there was no repair and replacement, machines would wear out, buildings fall down, railway sleepers rot, etc., etc. On the other hand, a nation cannot save its entire annual income, for if it did so it would have nothing to live on and its entire population would die of want.

Therefore a nation must always spend some proportion and save some proportion of its annual income. In other words, it must always devote some of its energies to the production of things not consumable or useful in themselves, but which are necessary for the production of goods in the future. But what should be this proportion between saving and spending? Obviously, for instance, if a nation only saves each year exactly enough to replace the annual depreciation of its capital it will not be able to increase its income, *i.e.* its production of wealth, from year to year. On the other hand, if it saves more than a certain proportion of its income *it will not spend enough money to absorb the goods and services produced by its*

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*existing instruments of production without a general fall in prices.* But a general fall in prices acts, as we have seen in Chapter II, as the most effective check to further productive activity. Hence if its proportion of savings is too high it will year by year add to those instruments of production and therefore to its productive capacity, without increasing at all its power of consumption at a given price-level. *Thus it will soon be able to produce far more than it allows itself to consume.*

This proportion of national spending to saving has varied greatly in different countries and at different times. Mr. Maynard Keynes has a well-known passage (written from a Capitalist's standpoint, but leading to a Socialist conclusion) on the question, in his "Economic Consequences of the Peace." It puts the case so well that even at the risk of some repetition it is worth quoting at length:—

"Europe was so organised socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the inequality of the distribution of

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wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the Capitalist System. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a regime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

“ The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a Society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the Pyramids of Egypt, the work of labour which was not free to consume in immediate enjoyment the full equivalent of its efforts.

“ Thus this remarkable system depended for its growth on a double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of Society into accepting, a situation in which they could call their own very little of the cake, that they and Nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were

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theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. The duty of 'saving' became nine-tenths of virtue, and the growth of the cake the object of true religion. There grew round the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer; and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was only in theory,—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.

“In writing thus I do not necessarily disparage the practices of that generation. In the unconscious recesses of its being Society knew what it was about. The cake was really very small in proportion to the appetites of consumption, and no one, if it were shared all round, would be much the better off by the cutting of it. Society was working not for the small pleasures of to-day but for the future security and improvement of the race,—in fact, for 'progress.' If only the cake were not cut but was allowed to grow in the geometrical proportion predicted by Malthus of population, but not less true of compound interest, perhaps

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a day might come when there would at last be enough to go round, and when posterity could enter into the enjoyment of our labours. In that day overwork, overcrowding, and under-feeding would come to an end, and men, secure of the comforts and necessities of the body, could proceed to the nobler exercises of their faculties. One geometrical ratio might cancel another, and the nineteenth century was able to forget the fertility of the species in a contemplation of the dizzy virtues of compound interest.

“There were two pitfalls in this prospect: lest, population still outstripping accumulation, our self-denials promote not happiness but numbers; and lest the cake be after all consumed, prematurely, in war, the consumer of all such hopes.

“But these thoughts lead too far from my present purpose. I seek only to point out that the principle of accumulation based on inequality was a vital part of the pre-war order of Society and of progress as we then understood it, and to emphasise that this principle depended on unstable psychological conditions, which it may be impossible to re-create. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the labouring classes may be no longer willing to forego so largely, and the capitalist classes,

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no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation."

### II

The point in Mr. Keynes' analysis which especially concerns us here is the one which he makes as to the connection between an unequal distribution of wealth and a high percentage of national saving, and an equal distribution of wealth and a low percentage of saving (or, to put it in terms of goods, the conception that an unequal distribution tends to a large production of secondary goods and an equal distribution to a large production of primary goods). On the whole we believe that there is such a tendency. A man with £3 a week will find it more difficult to save than a man with £30 a week. But the tendency must not be exaggerated. In the first place the man with £30 a week will have committed himself to a corresponding scale of life and may find it about equally difficult to find a margin between expenditure and income. Again, it may be argued that the workers, whenever they manage to get their heads above water, show the strongest inclination towards saving—as exemplified in War Saving Certificates, Post Office Saving Banks, etc. Hence any general rise in the real wages of the working classes should be reflected in a great increase in such

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small saving. But on the whole it is probable that a better distribution of wealth would produce a certain tendency, perceptible but not violent, towards more spending and less saving.

Then you admit, it will be said, that your policy with its distributive character will lead to an increase in *the proportion* of national spending to saving. We do fully admit this. But we suggest that such an increase is most urgently needed. For let us remember what exactly it means. If the Nation spends more in proportion to its savings it simply means that it will devote a higher proportion of its productive capacities to the production of primary goods and a lower proportion to the production of secondary goods. It will mean nothing more and nothing less than that. Now, as we all know, our industrial difficulties are not due to a lack of secondary goods. We have factories, machines, plant of all sorts, ready and waiting to produce goods. But they do not in fact do so for the reasons which we have already analysed. Therefore what we need are not new secondary goods, but new primary goods. Any policy which will lead to an increase of the ratio of spending to saving will produce a higher percentage of primary goods to secondary goods. And this is exactly what is most necessary for our economic well-being. But it must not be supposed that such a policy, by increasing the national power to spend, will decrease the national power to save. Although it will decrease *the proportion* of saving to



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spending, yet it will not decrease, but will materially increase, the *net amount* saved—that is spent on secondary goods. For it will so increase the *total* national productivity that a comparatively small proportion of this new total will be greater than the present high percentage of the present small total. For the new purchasing power created will, after a time, begin to make itself felt in a demand for secondary goods as well as for primary goods. When the full productivity of our existing instruments of production has been called out, the only way to increase production further will be to make new instruments. But then, following the magnet of effective demand, some portion of our productive energies will be diverted on to the production of these secondary goods. And although that portion will almost certainly turn out to be a lower *proportion* of our total productivity than under the present system, yet it will probably be a far larger net amount.

### III.

In fine, the more we examine any aspect of the modern economic problem the more we are forced to the conclusion that the essential condition for the successful working of modern industrial production *is the creation and maintenance of a steady and widespread effective demand for goods and services.*

Theoretically that effective demand should

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create and maintain itself. An increase in the power to produce should, by means of falling prices continually translate itself into increased production, and thus create, as it were, its own effective demand. As we have seen, two factors prevent the fulfilment of this dream—which was the vision of plenty of the Victorian Economists. (What Carlyle, referring to Cobden, called “the inspired bagman’s calico millennium.”) But a falling price-level acts as a powerful and automatic check on increasing production; also the growing concentration of wealth, of the ownership of the instruments of production (and hence of the ownership of the products of those instruments and so finally of effective demand), prevents increased production by hampering and preventing exchanges. Hence it is necessary to create and maintain widespread effective demand by conscious artificial means.

Nobody pretends that this creation and maintenance of widespread effective demand is an easy task. But what we do submit is that it is *an essential task*: and that until it is undertaken no economic alleviation can be expected.

### IV

What, then, is the theoretical basis of the proposals for the creation and maintenance of effective demand advocated in these pages? We have in effect submitted that the worker should be paid *more* than his present share in

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the national wealth, in the belief that the demand so created will, if proper precautions are taken and wise regulations made, so increase production as to render "economic" his increased money wage.

What is the principle on which this basic proposal is founded? Is it not really a proposal to grant credit on a new but perfectly legitimate basis? If a man owns a lathe, or a farmyard, or a steam trawler, people are willing to lend him money on the security of such a possession. Why are they willing to do so? Simply because these possessions are all instruments of production, with which, they know, wealth can be created; and out of this wealth their loan can be paid back. Should its present possessor for some reason be unwilling to use his instrument of production, and so make wealth to pay back the loan, they are able legally to compel him to do so. But in the case of a man who owns no property, nobody will make any advance to him, for he has no "asset"—no instrument capable of producing wealth—to offer as a security.

And yet surely every able-bodied man—and indeed woman—has in fact one possession, one instrument for the production of wealth, one inalienable "asset" which neither the cupidity of property owners, nor the misfortunes and miseries of modern industrialism, has taken away from him. And that asset is his own physical and mental powers. The "cunning," as the Old Testament writers would have put

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it, of his hand and brain "apt and skilful" for the production of all the things which the world needs.

Is not this human asset a fit basis for a credit structure? For, after all, the proposals which have been set out in these pages come to no more and no less than this. Credit is given to a man *on his capacity to produce*. This conception must not be obscured by the fact that the credit will probably not be given to each man individually but to groups of men working at the same task in the same place—mobilised, that is, into organisations for production, and that the responsibility for repayment will certainly be collective. It is true that these organisations for production are to-day Capitalists firms and companies. But the national credit which will pass through them will transform them into something better, for it will give them the assistance of the community in their task of reorganising themselves on the basis of production for need and not for profit.

### V

#### THE UNUSURIOUS LENDER

But it must not be thought that this lending to the individual on his capacity to produce, this attempt to invoke by credit his latent powers as a wealth creator, would be by any means the only function of a public banking system. We have seen that the acquisition

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of the banks is essential to a Socialist Government as an instrument in its struggle for economic power. But quite apart from this, the constructive possibilities opened up are immense.

The whole problem of lending, which we have been discussing in one aspect, is really one of the oldest problems in the world. To-day we call it the problem of credit. But it was a very pressing problem long before that name was invented. It was a "burning question" both 500 and 2,000 years ago. In those days it went by the name of the problem of usury. The difficulty then was, and now is, this:

The function of *lending*, of issuing credit, of "letting out money at usury," is in essence one of the most useful and necessary of social functions. For it often happens that somebody, who has both the desire and the ability to undertake some lengthy and elaborate piece of wealth production, has not himself the reserve of wealth either to buy the necessary raw materials, or to feed, clothe, and house himself, and the men who are to work with him, during the period of time before his process of production can have come to completion. For until then he cannot obtain his supply of goods and services which he can exchange for food and clothing, etc., for himself and his co-workers. If there are no lenders, no "usurers," in the community such a man is helpless, and the piece of wealth-production which would in time enrich the community

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cannot be undertaken. But if there are "lenders" an arrangement can be made. The "lender" is a man with a stock of wealth which he himself does not want to use. He will agree to feed, clothe and generally support the man who wishes to produce, in return for a share of the fruits of his labour, when they materialise. Under this arrangement the producer is enabled to go ahead and the community generally is enriched. Nothing could seem better. But, unfortunately, the system has always shown one almost fatal defect. We say that the lender can claim *a share* of the fruits of the producer's labours, in return for supporting him during the period before these fruits have materialised. But what is this share to be? *Is it to have any relation to the amount which the lender has expended on the "support" of the producer?* There has never been such a relation. The lender simply claims the largest percentage he can get of the producer's "fruits." And as the producer cannot even begin work without him he usually gets what he asks. He may even successfully claim one hundred per cent. of those fruits, for the producer may find himself compelled to work for the mere prospect of being supported by the lender during the period of production. This has been so, because there have always been many more people anxious to borrow than there were people anxious to lend. The lenders, the mediæval usurers, the moneylenders, the modern bankers or financiers, have always

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sooner or later got the community into their grasp. They have found that, with the aid perhaps of a little mutual understanding to prevent "cut-throat competition," they have always been able to make the producer surrender the firstfruit of his labours. If he had resisted they would have soon brought him to heel by withholding the reserves necessary for the very initiation of his work. And as soon as the process has started its effect is cumulative. The very fact that most of the new wealth created comes into the lenders' hands means that their help, as the controllers of the national reserves, must be invoked for the next process of production. This is no unsupported theory, but a record of what has always happened both for individuals and for nations under a system of private lending. This was the chief economic problem of the middle ages—a problem embittered by the fact that the lenders were usually men of another and a more subtle race, though sometimes solved by the crude if effective method of tooth-drawing. The same problem played a part, the importance of which is seldom realised, in the overthrow of the Roman Republic, the insurrection of the Gracchi, the conspiracy of Cataline, and finally the successful *coup d'état* of Cæsar. It has always and *must* always arise in any community, except when there exist quite exceptionally favourable circumstances for wealth production, such as existed, for instance, in England in the nine-

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teenth century. Then the producer was making such colossal profits and the "fruits" of any production which he undertook were so large, so certain and so immediate, that he had comparatively little need of the financier or "lender."

With us to-day the problem is asserting itself with increasing vigour, in the form of the nascent "split" within Capitalist society between the producers (the industrialists) and the lenders (the bankers and financiers). (See on the one hand numerous memoranda and representations on the part of the Federation of British Industries, and on the other the report of the Cunliffe Committee of Bankers and financial interests, etc., etc.)

This split is really only a special case of the general Marxian theory of the cumulative ill distribution of wealth under Capitalism. So long as the authority which controls the accumulated reserves of the community acts solely in its own interests, the reserves necessary for any large-scale production will be found more and more concentrated in the hands of a few. And if these few use to the full the economic power which this concentration gives them, then they will be able to extort for themselves a very high proportion of the fruits of industry.

Thus the producer will find his every path blocked by having to pay exorbitant interest to the financier. This has always happened under a system of private lending. The statesmen of the ancient world tried to deal with it by moratoriums and by attempting to fix



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maximum rates of interest. • But this had little effect, for even though the rate of interest was comparatively low, yet the hand of the financier was not lifted. For if he lent a man £100 at only five per cent., yet in twenty years, when £100 had been paid back, the whole original £100 was (and is) still owing.

The men of the middle ages were more drastic. They continually passed laws forbidding usury of every kind and sort, laws which made it an offence against both God and man to receive interest on money. But their laws had little effect, since, as we have said, lending is, in itself, an essential social function. The producer *must* find someone who will support him during the period of production. When the men who held the reserves were forbidden to lend them out at interest, all that happened was that the money traffic was driven underground and the price which the unfortunate producer had to pay was raised still higher.

The problem was, and is, to secure for the ordinary man who is willing and anxious to start out working at wealth production, this essential service of "lending." Yet the lenders must be prevented from getting the community into their grasp—and once there throttling it by pressing their economic advantage home—from having, like Shylock—their bond.

This is the problem which has never been solved. And it is possible that the well-informed historian of the future, alive to the

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profound effects of economic tendencies upon human fate, may ascribe to this failure the collapse of many of the widest empires and highest civilisations. The solution which at once suggests itself to the men of to-day, was not open to those of the ancient world. They had no central authority capable of exercising the functions of the public lender. But for a modern community the way out of the difficulty is clear.

It has been found in the past (1) that the function of "lending"—the provision of funds from the common stock—was an essential one, but (2) that the invariable result of allowing private persons to perform this function was that these private persons got control of the whole national stock—the whole capital of the country—and finally stifled production itself by claiming the whole of its fruits for themselves, thus leaving no incentive to the producer.

The obvious solution is for the community itself to undertake the function of lending. The development of representative and democratic institutions has made it possible for the community collectively to perform, through representatives whom it can control, such functions as this. And after all what is more natural than that the organised community should insist on administering and apportioning its own reserve or *stock* of wealth? What could be more natural than that any individual citizen, when he wished to initiate any kind of productive process, should apply for the

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necessary "capital"—or "credit"—to the representatives of the whole community of which he is a member? Surely this is a simpler, more comprehensible idea than that he should be compelled to apply, as now, to a heterogeneous body of "financiers," "bankers," "Capitalists," whose sole criterion of whether to accede to his request or no, is that of whether it will result in a maximum of profit for themselves?

For naturally a community-owned credit system would not judge the claims of applicants for accommodation and advances from the same point of view as does the present profit-making system. To-day the sole criterion is the ability to pay. If the establishment of a new brothel will yield ten per cent. and the building of a new railway only five per cent., the railway does not get the advance. Such projects as slum clearances, whose value cannot easily be expressed in £ s. d., have no claim; but to raise a vast new block of flats and restaurants opposite the Ritz in London is obviously "a sound proposition." This is the inevitable result of leaving the allocation of the national resources to irresponsible private persons. But when once the community had resumed the control of its own resources a new test would have to be passed by applicants for advances. Not only would they have to show that their undertaking would pay—that is, would result in the production of wealth—but also that it had social usefulness. This will not mean that

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advances will be given on philanthropic or sentimental grounds. It will not mean that the community's representatives will be less "businesslike," but, on the contrary, that they will be less short-sightedly *unbusinesslike*. They, like the present financiers, will take the creation of the maximum amount of wealth as the ultimate aim. But they will look a little beyond the immediate transaction with which they are dealing. They may find that the erection of a new palace in Piccadilly will yield ten per cent., and the clearing of a slum in Hoxton, but two per cent. But before they build the palace they will compute, if they can, the loss of wealth suffered by the community each year through the existence of that slum. They will reckon up, if they can, the amount of labour power that the Nation has lost in killed and maimed children in the long, losing, battle with disease which is being waged in those courts and alleys. They will add the total spent in poor relief, in charity, in health service, in hospitals, in workhouses, in prisons, and it will be strange if they do not come to the conclusion that we simply *cannot afford* to allow such things as slums to exist, even if we wished them to. They will see that the saving—the increase—in the real, hard cash wealth of the community is far greater in the slum clearance than in the palace building. And after all, will it be a very startling conclusion to find that we cannot afford to build a new palace until we have got decent cottages

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to live in? Yet to-day we build the palaces, and say we cannot afford the cottages.

Certainly the administrators of a nationalised credit and banking system will look ahead in this way and make the advances which will in the end give the Nation the greatest yield. But even if they did not do so, even if they were as shortsighted as their predecessors, they would yet find themselves making advances for slum clearances instead of for palaces. For as soon as the pull of purchasing power has been transferred to the working classes, it will be the satisfaction of working-class needs—such as decent houses—which will actually *pay best*. Indeed, if we were doctrinaire, we might say that the increase and transference of purchasing powers is all that is needed. The issue of advances to undertakings of a socially useful character would follow quite automatically. The bankers would simply find that slum clearance had become more lucrative than palace building, and would therefore support it just as readily. But in this rough-and-ready world it is doubtful if things would happen as neatly as that, and so it is suggested that it would at any rate immensely ease the transition period if the factor of social usefulness—which is only a long view of social profit—was taken into account by the new financial authorities.

But, when the banking system has been socialised, there will be one more difference in the allocation of the national reserves. To-day the whole purpose and object of banking and

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finance is to *accumulate*, to lend at the highest rate and borrow at the lowest. From time immemorial accumulation has always been the object of the banker, the financier, the private usurer. And so successful have they been at it that, as we have said, they have always succeeded in the end in draining dry the social system in which they lived.

But the object of a community-owned banking system need not be to accumulate at all. It can well be, if the people of the community so desire, to *distribute*.

If they desire to have each a comparatively small amount of private property and for the community as a whole to have a great "common stock" which it can use for communal ends, then indeed they will allow their bankers to lend only at comparatively high rates of interest, and on the present system of interest in perpetuity. But if they should desire that everyone should own a comparatively large amount of private property—say his own house and garden, and all that he uses personally (far more than most men own under our boasted "individualism"), then they would instruct the "Trustees for the National Stock," as the bankers would have become, to act somewhat differently. Interest rates sufficient merely to cover the cost of the banking system, arrangements of automatic sinking funds which repaid the debt over a term of years, could be devised for *disseminating* property through the community. Thus if a man wished to own his



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house he might be able to borrow from the bank, on the security of his capacity to earn (and, of course, the "collateral" of the house itself) enough money to buy an existing house or build a new one.

If it had been decided that it was better that the bulk of property should be publicly owned and let out to individuals, the banks would simply charge their ordinary interest rates, which would in fact be the rent of the house. If on the other hand public policy was to diffuse the ownership of property widely amongst individuals, then the banks would lend on some such arrangement as we have suggested, whereby the house would become the unincumbered freehold property of the individual citizen.

In fine, a socialised banking system would be the most potent instrument for the execution of whatever social and economic policy the community had decided upon. It is the solution of the old difficulty of the money-lender, whose services were essential to the community, but whose position gave him unexampled power, which he invariably abused. For if the community itself undertakes the function of the money-lender, we shall at last have secured a disinterested authority. A democratic community cannot get its own citizens into its grasp. The question of *accumulation* or *distribution* will become a great question of public policy—a subject indeed of hot debate between Mr. Chesterton and his "Distributors," the descend-

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ants of the present "Tory-democrats," and more conventional Socialists—but not, as now, the mere sport of economic circumstance and grasping private interest.

Banking and the control of credit—the trusteeship of the national stock out of which all future production must be financed—is the prime, the obvious, the essential function to transfer to public hands. It is not a business which requires enterprise, quick decision, initiative so much as prudence, trustworthiness, stability and clear-sighted disinterestedness of intention. These latter are exactly the qualities which it is admittedly easiest to attain to under public management.

Thus it must not be supposed that the emergency proposals, designed to meet the continued decline of the present system, which have almost exclusively occupied our attention in these pages, are the only changes which would be occasioned by the socialisation of the banking system. In this chapter we have just glanced down the great vista of possibilities which is opened up by such a change. It is not suggested that we have even begun to examine them. But it was thought necessary to show somewhere that the supporters of the Birmingham Proposals were not unaware of their existence.

To suggest adequately the possibilities latent in socialised banking it would be necessary to write a very much longer, and a very much more technical, book than the present one.

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## VI

### CONCLUSION

I am conscious that the reader who has so far pursued the twisting and laborious arguments of these pages must be almost at the end of his endurance.

If he is alive to the new age, if he feels upon his cheek the large air of the epoch in which we live, he may well feel small patience with the dusty bypaths of economics and finance along which our way has led. If, on the other hand, these pages have somehow fallen into the hands of a reader who is still living in the old world of a few decades ago, then to him they must seem a work of inexplicable lunacy.

For the authors of the Birmingham Proposals have attempted no appeal either to the sentiments or the passions of their readers. We have sought to avoid overmuch mention of the feelings of common humanity which must make every man and woman not entirely impervious to generous impulses, seek almost desperately for a way out of the present condition of things. Still less have we attempted to rouse the indignation, or the just anger, of dispossessed and toiling millions. This abstinence is not because we wish to decry the great and growing volume of literature which is devoted to one or other of these ends. To awaken the rich and the comfortable to a sense of responsibility, to kindle the divine discontent of the lowly and the ill-

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used, must always remain the first part of the work of the social reformer.

But, happily, so many able writers and eloquent speakers address themselves to this task that the need for general propaganda and agitation is comparatively well supplied. We have already, perhaps, enough vague appeals to men's "better natures." People are usually ready enough nowadays to accept, in the main, an arraignment of the present system; they agree that the condition of things is lamentable, but they ask in genuine perplexity for our practical remedies. Again and again we hear the question: "But what do you want to *do*?"

This book, if it is anything, is an attempt to answer that question—to put Socialism into practice. We have sought to answer it with no vague and high-sounding phrases. At the risk of being dry and academic, we have eschewed every element of what is called "the human touch." Above everything we have attempted, even though that attempt may have seemed crude and premature, to be clear, practical and specific. We have attempted to answer definitely, we wish to do *this* and *this* and *this*.

We are not unaware that in so doing the best established canons of political tactics have been violated. But to-day it is beginning to be recognised that the reformer and the politician must be willing to put their cards upon the table, stating without equivocation, both the principles they have at heart and the means by

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which they conceive that those principles might be put into practice. For we live in an age impatient of the vague and the sentimental, hungry for the practical and the specific. Thus it may be that those who strive to approach our national problems in the spirit of the scientific engineer, rather than in that of the political propagandist, may gain some hearing.

It may be that these proposals will find some readers who will bring to their consideration a spirit liberal and constructive. Doubtless, if they are approached in a spirit of blank negation, it will not be impossible to find effective criticisms. To propositions so specific as these, endless objections of detail can always be made. Those readers who wish to do so will certainly be able to make out a strong case for doing nothing. For to a certain section of those who are made thoroughly comfortable by the present system, the case against attempting to alter it will always seem overwhelming. To such we have no intention of appealing, for we have no hope of influencing them.

But it may be that there are certain men and women, particularly perhaps of the younger generation, who, while they have not accepted the Socialist creed, are yet convinced of the necessity for a revision of the industrial system. To these young men and women we do appeal with all the earnestness at our command. We do ask that these arguments, and these proposals, will be judged by them on their merits, without regard to the prejudice of party or

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preconceived theory. If we can meet on the common ground of agreement that *something must be done*, then it should not be impossible to examine calmly and scientifically any constructive proposals that are put forward, no matter from what quarter. Let us at any rate assure the reader that these proposals are submitted in no dogmatic or doctrinaire spirit. They are the result of continuous consultation and discussion between many men, working on the problem of the practical application of modern Socialist thought.

As they have been submitted to new minds of every type and range of experience, they have been continually developed and revised, often in vital particulars. They have now been published, with the sole object of enlarging the circle of minds who have co-operated at their birth and weaning. Thus if any reader should feel that our arguments are not wholly fallacious, our expedients not entirely futile, let him consider them in the spirit of creative co-operation. They constitute no cast-iron policy which must be accepted or rejected as a whole. They are still in a state of evolution, responsive to the impress of active minds which will devote themselves to them. If they have been expounded in a somewhat dogmatic and dictatorial manner, it is because their authors have been deeply impressed with the necessity of offering to the awakened people of our country proposals of a clear and practical character.

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Again we know well that we have discovered no cure-all for the ills of the world.

“The troubles of our proud and angry dust  
Are to eternity and shall not fail.”

The limited but clear aim of these proposals is to achieve some degree of economic well-being, and, above all, security for the working classes. Economic security would not suddenly make us all into super-men. But, unless we can procure some reasonable measure of it for the working classes, we shall never again enjoy the benefits of a stable social order. Those people who refuse to consider proposals for economic betterment, because they realise that economic betterment, by itself, would not bring about the millennium, may be likened to passengers on a sinking ship who refuse to take to the boats because they foresee that in so doing they will not immediately reach the promised land. Thus these proposals are best regarded not so much as an attempt to secure the millennium, but as an attempt to avoid imminent catastrophe.

Even while these pages were being written the country passed through a period of profound industrial unrest. It is true that for a time the crisis has been averted. The Government has bought off destiny with a subvention (for it was to fate rather than to Mr. Cook that Mr. Baldwin paid the Mining Subsidy). But destiny cannot ultimately be bribed. In fact,

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we have got only nine months of respite, and an unprecedented industrial crisis would seem, at first sight, inevitable as early as the spring of 1926. Very possibly that crisis will once more be postponed. But even though it is postponed again and again, it can never be averted until the fundamental injustices which underlie it have been remedied. And they will probably not be remedied until matters come finally to a head. Such a crucial hour is in itself to be desired, for it will force our rulers out of the organised procrastination which they call statesmanship, and peremptorily require them to attempt some action.

But we must be ready for that hour, if we are to use it for the general good. And, unfortunately, the Nation is at present lamentably unready. There is as yet no general realisation of the great issues which confront us. As yet each side sees exclusively its own aspect of the case.

The awakened manual worker sees in the impending struggle against further reductions in wages, nothing but a last desperate attempt to assert his right to some voice in the factors which govern his whole existence. He is determined that he will not lightly yield the right to such wages and such conditions of labour as will, in his opinion, make life tolerable. He sees mobilised against him the mighty power of established property, before which his grandfather and his father were alike forced to bow; and behind them he sees, rank beyond rank



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arrayed, the tremendous instruments of a Governing class, the power of the Press, of money, of leisure and, too often, of education and of the Pulpit. In the face of such odds he feels hopeless of ever making his case known to neutral public opinion. Yet he knows that if he accepts tamely this new reduction of wages, which, as the Prime Minister himself has told him he must, on Capitalist assumptions, accept, he will have lost finally the right to so much as question the orders of his masters.

He feels that in that case a new and industrial serfdom will have come into being amongst us. For it is no figure of speech, but the most literal statement of fact, to say that for the organised manual worker the issue of the industrial struggle is nothing less than the issue of freedom or of slavery.

And yet at the same time we must realise that there are thousands of men and women of the middle classes who sincerely believe that the refusal of some group of workmen, such as the miners, to work for any wage which their employers will offer them, is a conspiracy against the State. They regard the withdrawal of their labour by workers who refuse to accept a particular wage as Trade Union tyranny, and are genuinely willing to force them back to work, on the owners' terms, in the sacred name of ordered democracy. The conflict between these two flatly opposed points of view has never been so sharp or immediate as it is to-day.

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Never was either of them more passionately held. Never were men more convinced that their own view was the only conclusion to which an honest man could come.

Thus has arisen the hideous danger, which we all feel, of a blind, head-on collision between these two contending forces. Such a collision, if it were to come, would be all the more terrible, in that both the parties to it would believe absolutely in the justice of their own case. The most casual observer is aware of the drift of events towards the abyss of industrial conflict. But the abyss cannot be avoided by pretending that it is not there, or even by treating the blind and pitiless economic forces which are driving us towards it, as the wicked inventions of "red" agitators. Nor can it be avoided by an unlimited outpouring of "good-will" from both sides.

It can only be avoided if we can all achieve an unprecedented amount of sustained and constructive hard-thinking. The Nation, if it wishes to avert those consequences which it dreads so much, must "reconsider itself" in a more drastic manner than it has done for a hundred years past. And it is the duty of every citizen, of every school of opinion, to contribute to a national pool of constructive thought.

The Birmingham movement offers these practical proposals for the application of Socialism as its contribution. We have come to believe,

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rightly or wrongly, that the way out of our present dangers lies along the road we have striven to indicate. Surely it behoves other schools of political thought to offer *some* constructive alternative before they spurn altogether the present proposals?

But in any case the supporters of these proposals will have the satisfaction of knowing that they have joined actively in Labour's effort to avert catastrophe. The Labour Party is often accused of being "the party of catastrophe." If our critics mean by this that we are a party which seeks, both in season and out of season, to warn the country that a calamity will surely come unless we arouse the Nation to a great exhibition of constructive activity—then we may gladly accept the name. We are in duty bound to attempt to avert disaster by warning the Nation of its possibility. But we may all of us be permitted to hope that once again this strange and predestined Nation will somehow, as she reels and staggers down the twentieth century, avoid the fatal abyss.

A hundred years ago William Pitt said that "England would save herself by her exertions, and Europe by her example." It must be our belief—as men very proud to call themselves British—that to-day, in the far graver crisis of the social revolution, these magnificent words may come true. But though we may be permitted to hope, yet our hopes must not blind us to hard facts. Not all the omens are favour-

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able to a smooth transition to the social commonwealth of the future.

It may be that the present holders of economic power may find both the will and the means to force an extensive wage conflict upon the working classes. They may press blindly on with their demand that the manual workers should submit to economic slavery. For the logical outcome of the attitude into which a large section of the property-owning classes has fallen must inevitably be the denial of the right to strike. Then the manual workers will become in form as well as in fact the acknowledged wage slaves of property. If this indeed were the purpose of a dominant section of the governing classes, a great industrial conflict would be inevitable.

In such a struggle the course of action of the supporters of the Birmingham Proposals would be especially clear, and unequivocal. They have made, while there was yet time, what contribution they could towards a solution of our difficulties. Therefore if that solution—and all other solutions—are neglected and a great wage struggle is precipitated, they may throw every ounce of energy they possess on to the side of the wage earners.

They will be tempted, in Shelley's noble line,

"Neither to change, to falter, nor repent."

In such a struggle the cause of the lowly, the humble and the oppressed will be at stake.

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In the tramp of nameless millions will be heard the beating of the pulse of humanity itself. And all who are not deaf to that high music will know that they must face the hour.

For, in the disaster of industrial deadlock, neither economics nor political science, neither the wisdom of the past nor the subtleties of the future, would avail us anything. May such an emergency never confront us. Let us strive with every faculty at our command to avert it. But, as all men know in their hearts, it can only be averted by the creation of a more just and humane order of society. To the peaceful achievement of that greatest of constructive enterprises let us bend our whole will and purpose. For then, if our rulers, in the mad panic of threatened privilege, precipitate an industrial catastrophe, we shall be free, in heart and in conscience, to uphold the cause of the working people of our country with unquestioning devotion and irresistible determination.