

# THIS UNEMPLOYMENT: DISASTER OR OPPORTUNITY?

*An Argument in Economic Philosophy  
submitted to the Christian Social  
Council by its Research Committee*

BY

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WITH A FOREWORD BY

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## FOREWORD

THE Research Committee of the Christian Social Council does not provide ready-made convictions. It does attempt to provide material for the thought which, after consideration and discussion, leads to conviction. Accordingly, a book like this does not represent the considered opinion of the Council. Some, perhaps many, of its members may hold very different views. The same is true of the Research Committee itself. But by its very boldness and freshness such a book compels Christian men to face the stark facts of this unprecedented situation.

Nothing is more difficult than to disentangle the moral issues in the economic impasse in which the nations find themselves to-day. Certain aspects of the matter, vital from the Christian standpoint, are made plain in the chapters which follow. They may be summed up in one inclusive question: Can the moral and spiritual capacities of mankind control and direct the powers of scientific development and mechanical invention which dominate the present and which will presumably dominate the future?

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There seem to be two worlds involved: the world of finance and the world of industry. Finance pays the piper and calls the tune. But industry cannot play it. These two groups are not in accord. What is the meaning of this discord? And where is the cure?

We are being driven economically, to say nothing of politically, by harsh necessity to recognise the inter-dependence of nations. It seems that the choice will be between states united in free co-operation, not in strained economic rivalry, or a world-wide conflagration. Every nation does lip service to this ideal, but none dare act upon it.

Has the Christian Church the spiritual insight and energy to deal with these things? Both at home and in the world at large men need to shake themselves free from the shackles of out-worn economic conventions; to realise that a new age has dawned, to summon new powers of vision; above all, to realise that the first consideration is not the system but the human beings and the human issues involved in the system. What has the community of Christ to say to this? So far, in large measure, it has left the economic world to take care of itself, and men have drawn the natural conclusion (often proclaimed even by members of the Church) that in this domain religion is a trespasser. Yet it is certain that

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this very fact accounts in no small measure for the difficulties in which we are immersed.

The examination is being conducted on all sides by men of skill and experience. Valuable reports like Lord Macmillan's are forthcoming, and ought to be studied along with this book.

The fact remains, however, that specifically Christian thinking on these subjects on any adequate scale remains to be done, and the publication of this book, to which the author has obviously brought much thought and knowledge, should give a strong impetus to that enterprise.

THEODORE WINTON:

*Joint Chairman of the  
Christian Social Council*

## AUTHOR'S PREFACE

THIS book has been written by me in consultation with the members of the Research Committee of the Christian Social Council. For all statements, interpretations and judgments therein I am alone responsible. The material is presented to the Council as an argument to which the Committee wishes to secure the attention of Christian people, and commits neither the Council nor its Research Committee to its conclusions. The Committee has thought it best to leave the book in this form as the work of a single writer with his own views, rather than deprive it of incisiveness by making it a mere description of various diagnoses. It is sponsored in the hope that as it stands its tendenciousness will provide a stimulus to Christian thought on the subject.

V. A. DEMANT

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# THIS UNEMPLOYMENT: DISASTER OR OPPORTUNITY?

## I

### INTRODUCTION : RELIGION AND ECONOMICS

THE present widespread economic disturbance which appears to be spreading wherever industrialism exerts any influence can no longer be considered by Christians as a purely secular problem. Not only has it spiritual and moral consequences of which the faithful must seriously take account, but its crisis shows no signs of abatement with all the secular panaceas offered to it. The economic deadlock of an industrialised world appears more and more to be, not merely the result of minor economic and social disturbances, but a spiritual and social problem of the first magnitude. This book is written in the conviction that there is no answer to the problem so long as it is regarded as a purely temporary industrial failure. It must be viewed as one of the major crises in the history of man. Our diagnosis concludes that we have to deal with a situation in which men are compelled to face for the first time the question: *What is Industrialism?* This question subsumes several

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others : What have been the effects of Industrialism upon civilisation ; how far have we to welcome or deplore these effects ; to what extent are they inevitable results of industrial technique or merely historical and separable accompaniments of it ?

By Industrialism we mean more than the technical side of large-scale production in manufacturing and agriculture which has followed the invention of the steam engine and the application of science. We mean besides this, at least, two other sets of facts. One of these is the type of human organisation which has accompanied this technical development, and which is expressed in the terms : owners, workers, shareholders, management, the salariat, distributive trades, sales organisations, advertising, the wage system, and so on. The other set of facts is the network of theory and practice which may be grouped under the heading "The Philosophy of Industrialism." This comprises such things as the right and duty of work, the theory that prosperity is measured by commerce, assumptions about the necessity of a "favourable" balance of trade, and the principles and practice of the money system as administered by the banks.

Apart from the judgments which a religious outlook cause men to make upon it, on a purely secular view this complex assemblage of technical equipment, organisation and theory is manifestly breaking down. And while faced with its own problem of trying to remain a going concern the industrialised world is breeding not only human

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suffering but also despair and, as a reaction, a cynical irresponsibility, accompanied by a numbing pessimism on the one hand and on the other a hardly induced optimism of the most artificial and specious kind.

These facts raise far-reaching questions concerning the significance of human life and development, and for religious people, questions concerning the spiritual nature and destiny of man. A civilisation in which men have acquired so great control over nature and in which at the same time appear such colossal social and economic failures, is a phenomenon which presents a challenge to any philosophy of life which claims any kind of comprehensiveness. If Christianity is a complete philosophy of life it should be capable of enlightening the world not only on the nature and destiny of human life, but also on the elements which bring about such social defeats as the present crisis of industrialism.

The Christian Church has, therefore, a vital concern in squarely grappling with this problem, first, because the situation is inherently wrong and absurd—what the Church Fathers would call contrary to Reason; secondly, on ethical grounds, because of the problem's human results in suffering and despair; and thirdly, as a warrant of her own claim to embody the truest view of human life known to men.

The human problem is too obvious to need elaboration. The economic situation, with the rapid rise in the number of the unemployed as its acutest symptom, is to be condemned as the cause

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of poverty, insecurity, and despair. These immediate results are not confined to the actual persons or families unemployed, but the poverty induced by unemployment reacts unfavourably upon whole areas, and upon trade and industry generally. Economically, unemployment is a cumulative problem, and so are its moral effects. Unemployment, moreover, surrounds those thrown out of work with an atmosphere of social indignity and it breeds cynicism among those concerned, because it gives them a sense that society does not require them, while at the same time it suggests to them that they are expected to justify their existence. Unemployment at the present time is then both a personal affront and a symptom of social confusion.

Besides these more obvious forms of human injury, the economic crisis of the world, which seems slipping beyond the power of governments to deal with or thinkers to understand, is undoubtedly undermining the confidence of an increasing number of individuals in their social institutions. The State particularly is losing the power to interest or to call forth service from its members. The proportion of eligible voters who do not use their franchise is increasing in alarming proportions. Politics appear to a growing section of the population to be futile in the presence of the major industrial strains and stresses, and the activities left to political action consist more and more of negative and restrictive operations to prevent the hardships becoming too acute. It is decidedly against the interests of religion that

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the life of the State should figure largely in the public mind merely as an interfering factor at the points of conflict which political institutions are too feeble to prevent. The State as an organ of Society in such a case becomes looked upon as a nuisance instead of a spiritual fact.

But perhaps the most spiritually disintegrating fact in the situation is the atmosphere of acquiescence in the idea that large-scale social events have got beyond the control of the mind and will of man. This is the most fruitful breeding-ground of practical atheism. Men see that the present economic crisis cannot be ascribed to any of the factors which in human history have sometimes to be labelled "acts of God." They know that the economic distress of the world crisis is not caused by any failure in either the resources of the earth or the technical ability of men. And when they therefore turn to seek these causes in the methods and motives of men, they find it increasingly difficult to assign moral responsibility. The problem of evil has always been a severe test of religious faith; it has been a challenging and robust test when the problem figures obviously as one of wickedness or selfishness—evil acts of evil men. But it becomes a disintegrating and weakening test when large-scale social evils appear to be so far beyond human control that it is difficult to affix responsibility. When the mind and will of man appear able only to wriggle in the wake of the social process, the whole supremacy of the spirit over events is bound to be doubted both intellectually and practically. Theological

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teaching will avail little if the psychological basis of religion is thus undermined.

Some intellectual clarity is required in order to see why the "trend of things" looks so far to have slipped beyond social control that all men can do is to minister to the wreckage and hope idly for the best or repeat vaguely the need for organisation. This essay is intended particularly to demonstrate to Christian people that this landslide of modern industrialism appears so overwhelming because what we call industrialism contains contradictory elements; and that it is only so long as these contradictions are not clearly seen that man appears powerless to cope with the situation.

The outstanding contradiction to be indicated in this book is one between the actual technical achievements of the modern world and the obsession of scarcity embodied in economic and financial theory. Only when such contradictions are clear and a judgment made upon the conflicting factors can the extent of moral failure involved be estimated realistically. For this reason the following chapters are primarily concerned, not with the moral issues, but with the sociological confusion in the thought about modern industrialism which makes it difficult to raise a straight moral issue at all. This prior question of the conflicting aims of industrialism is of vital concern to Christian people, for it lies behind the moral issues involved in social living.

Moreover, the question is primarily religious rather than moral, for it is concerned with aims



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rather than methods and motives. Any serious attempt to bring the complexity of modern life within the compass of moral guidance must grapple first with this ulterior problem of conflicting policies, the incompatibility of which is often unconscious.

Religion is concerned with "rightness" in the whole of life. In its religious aspect the problem we raise is how far the theories of men are mistaken for, or imposed as representing, laws of Nature. A Christian Sociologist, like Aquinas, if faced with a social situation leading to suffering, strife and despair would *first* ask, What are these people trying to do—is their collective effort according to nature, is it rational, is it not self-contradictory, is it technically possible? If these conditions are found to be denied the cause of the trouble is diagnosed as ignorance, blindness, short-sightedness, pride, or as imposed by some invisible power. Only if the attempted policies are seen to be rational, not contrary to nature, does the *second* question arise, Are the people concerned not acting upon right moral principles?

The witness of the modern Church to social health has been largely ineffective because religion had been confined to questions in which *directly* moral issues are raised. But religion is as much concerned with truth as with goodness, and it is on the score of truth that economic and financial theory will have to be judged. This theory assumes that the purchasing power allowed to the community does truly represent

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its real economic achievements. If our diagnosis is correct that it flagrantly under-represents those achievements, all efforts to mitigate the resulting human disaster by moral appeals alone will continually fail to convince the world of their reality.

While the resolving of such a contradiction between industry and economic theory is a technical and not a moral task, the existence of the contradiction is an ethical and social issue of the first magnitude. You cannot moralise a contradiction. But if you are ignorant that a social situation involves contradictory aims you will be looking for wrong ethical conduct to account for the disasters—and you will mistake for such moral causes the moral perversions and poisoned relationships that spring from the strains imposed by the social dilemma. Your moral principles will then be looked upon by the world as unreal and the Church despised as a meddler adding one more link to the chain of difficulties.

The social problems of the modern world are becoming more and more dependent upon the economic dilemma with which this book deals. Men have become more and more concerned with economic issues during the last hundred and especially during the last twenty years. This is not, we think, due to their being more materialistic, but to the fact that the economic aspect of life calls increasing attention to itself precisely because it works badly. Economics is a widespread topic of conversation. This is not

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materialism; it is an unconscious desire for spiritual understanding and conscious control of a baffling and painful enigma. The placing of economic life in its proper basic place, so that it calls the least possible attention to itself, is the social and spiritual challenge of an age which has achieved all the physical requirements thereof. This is no task for the mere moralist—it is a problem of social reconstruction needed to establish the conditions upon which social morals depend. It is thus a problem of Social Redemption. Individual redemption is the task of re-integrating dissociated and conflicting fragments of a human being so that the will and conscience can begin to function positively. The task of social redemption is likewise to reintegrate what are dissociated and conflicting forces in social life. Only when that is achieved can social responsibility be a reality. Precisely because we are concerned to bring the whole of social life within the guidance of ethical and religious principles, we must attack the bad science, bad logic, bad sociology which underlie the contradictory aims of modern industrialism.

A recent book, *Uplift in Economics*,<sup>1</sup> has the sub-title: "A Plea for the Exclusion of Moral Implications from Economics and the Political Sciences," and the Bishop of Gloucester has been continually protesting against pronouncements which, he considers, claim that ethical considerations can override economic laws. Our approach is not to assert that the consequences

<sup>1</sup> By Professor Sargant Florence (Kegan Paul, 2s. 6d.).

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of economic law can be avoided by a different ethical motive in working with them, but that much alleged economic law is not economic law at all, and that, to carry the war into the enemy's camp, economic experts are accepting theories for realities in the interests of an unconscious moral attitude of their own which is an abstraction out of touch with the facts. Those who most vehemently bid us to remember that economic facts are very rigid generally do so in the interests of a believed situation of material scarcity wherein the main economic problem is production. "You cannot get more than a pint out of a pint pot" they say—and the practical sequel to this proverb has been the advice that if men desire more necessities or comforts than they now obtain they must work harder or save and invest to produce them more plentifully.

Here we are in the midst of the main contradiction to which we shall call attention, namely, that while men feel this theory of scarcity to be economically false, their theories and practice in regard to some parts of industrialism are actually based upon a scarcity "complex." We use this word in its precise psychological meaning for an association of unconscious attitudes, independent of objective reality, generally associated with fear.

Our aim is then to clarify the conflicting aims of Industrialism and to develop the thesis that in modern industrialism, where natural power is supplanting human energy and where the main problem is distribution, there is nevertheless

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implied in the minds of both the defenders of Capitalism and many of its critics a philosophy belonging to an earlier economic era. If, as we conclude, this attitude is embodied in our social ethics, in our theory of production and prices, and in our financial accountancy, the problem of practical sociology is whether and how to bring these instrumental factors into line with the facts of a world embarrassed with its wealth. Such an achievement may or may not result in a world of which Christians can feel responsible membership; but to face the fact that physically economic needs can be met on easy terms is a necessary condition of deciding that question. It would get rid of the devastating confusion between what men achieve and what is considered good for them to achieve which now renders it difficult to make a responsible social action at all.

The resolution of this contradiction between technical economic achievement and assumptions of economic theory is necessary before we can judge clearly and humanly what industry can do. We shall then be able to say whether from a Christian point of view it ought to do it. We have never yet seen a natural industrial order. We have only seen a creaking and groaning industrial world which in its least creaking and groaning periods we have often mistaken for normality. With our economic achievements freed from the contradictions of industrialism we shall be able to see whether those achievements are a good thing for mankind and whether they can form part of God's purpose for men.

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The main question posed to the religious consciousness by the present world situation is whether the age of the machine and the labour-saving use of science in production has, or can be made to have, any power of contributing to the fulfilment of the spiritual destiny of man. Is the release of men from the burden of unremitting toil, which the technique of industrialism has made possible but which the philosophy of industrialism has in so many ways turned into a social terror, part of God's providential order or not? If it is, Christians must be ready to regard the theories of economics and social ethics which have accompanied this development, and which have been carried over from an entirely different economic stage, as contingent instruments of that providential order, and not as either universal moral laws, ends in themselves, or instruments of moral government.

## II

### THE PRESENT SITUATION. INCREASED UNEMPLOYMENT OF LABOUR AND CAPITAL

Two things are becoming clearer every day. The first is that the present unemployment situation cannot be accounted for as just the latest phase of a recurrent business cycle. It shows every sign of being a malignant disease of the body economic. Following as it does, however, upon a number of such cycles of varying intensity, an analysis of the actual crisis may well produce a key for understanding the business cycle which has led to such varied and some grotesque explanations. From the chronic nature of the existing situation there follows, secondly, the conclusion that a trade revival in the old sense will not come by itself. A recovery depends upon discovering some factor or factors which have hitherto been overlooked or ignored. In an attempt to arrive at the discovery of such factors we begin with an objective description in outline of the main features in the present economic situation.

(a) *The Continued Growth of Unemployment of Labour and Capital* in the industrial nations of the world is the most obvious and acute symptom of economic depression. With regard to *Labour*

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this takes the form of throwing off men because of declining business, as on the land, railways, mines, shipyards, cotton mills and all the heavy industries; and also of the displacement of Labour through the use of labour-saving devices. In the first case the actual market declines. In the second it fails to grow at such a rate that with the labour-saving processes the same number of men are required on the former scale.

The Ministry of Labour announced the following estimate of unemployment in Great Britain at the end of 1930. On December 29th, the numbers of persons on the registers of Employment Exchanges were 1,766,398 wholly unemployed, 774,630 temporarily stopped, and 102,099 normally in casual employment, making a total of 2,643,127 registered unemployed out of a total insured working population of 12,044,627. This was 1,132,896 more than a year before and represents only the registered numbers. This figure of 2,643,127 is the highest ever recorded. The rate of increase can be seen by comparison with the figure for a week earlier. On December 22nd the total was 2,408,371, showing an increase in one week of 234,756 unemployed—a rate of increase only paralleled in the week of the General Strike of 1926.<sup>1</sup>

To see the phenomenon in its true perspective it is necessary to envisage this unemployment of men as only one factor in a situation which

<sup>1</sup> For the trend and percentages of unemployment from 1920 to 1929 in various industries, *Unemployment*, by Sir William Beveridge (1930 edition), chap. xvi, should be consulted.



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includes also the *Unemployment of Machines, Land and Capital*. Workers are but one section of the producing side of industry which is steadily being put out of action. The number of bankruptcies had increased from 1000 per annum in 1920 to 7550 in 1928. According to the columns of the Board of Trade with regard to bankruptcies, etc., the average annual number of insolvencies from 1923 to 1926 was 6535, which involved liabilities of £15,469,000 as against assets of £4,457,000, leaving an average annual excess of liabilities of £11,012,000. The significance of such failures is that not only does it represent the inability of many capitalised undertakings to recover their costs, but that if those failures had not occurred the public would have had to meet one way or another £11,012,000 in prices or charges over and above what it has met annually.

A similar writing down of assets has taken place by large-scale reductions of capital in such concerns as Messrs Vickers; the Dunlop Rubber Company; the Austin Motor Company; the Marconi Company; Liptons, Ltd.; Baldwins, Ltd.; Armstrong, Whitworth and Co., Ltd., in which no less than £15,117,500 were written off. Company liquidations averaged 3000 per year from 1920 to 1922.

In 1926 there had been registered 218,938 companies since the passing of the Companies Act in 1862, with a total nominal capital of £9500 millions. At the end of 1926, only 92,320 companies were known to be carrying on business with a paid-up capital of £4250 millions. Only a small

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part of the difference of £5250 millions had been returned to shareholders—the rest was lost! <sup>1</sup>

We take these facts referring to one country alone as indicating that there has been over-capitalisation on a large scale; that is to say, relative to the ability of industry and business as a whole to make such investment profitable. To understand the sociological significance of the situation it should be remembered that "Unemployment" includes the existence of unused capital equipment as well as unused human labour. We refer later to the question how far this capital or labour is unused because it is economically redundant or because of some factor that prevents its usefulness being paid for.

(b) *The Trend of Unemployment since the War.*—Although Unemployment is not a purely post-war phenomenon, it has since 1918 transcended in scale anything experienced in earlier years. Professor Henry Clay describes the post-war phenomenon as being "represented by three-quarters of a million unemployed in excess of the number that ordinary trade fluctuations would account for." <sup>2</sup>

The greater part of our unemployment has taken place in the export industries. Both Professor Clay and Sir William Beveridge lay

<sup>1</sup> Quoted in C. Marshall Hattersley, *This Age of Plenty* (Pitmans), p. 78.

<sup>2</sup> *The Post-War Unemployment Problem* (Macmillan, chap. iv). See also Sir Wm. Beveridge, *Unemployment*, New Section written in 1930, chap. xvi; *Unemployment since the War* (Longmans).

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great stress upon the fact that the present crisis is the aftermath of excessive industrial developments which took place during and after the war years and to the decline in international trade since. Although new and minor industries have expanded they far from compensate for the decline in the staple export business in coal, iron and steel, cotton, wool and other textiles, ship-building and engineering.

We simply record the fact here that the export industries are responsible for the greater part of our unemployment, and point out that in 1929 this country had a "favourable" balance of trade of £150 millions, which represents debt to this country from abroad. We shall have to take this into account in considering the argument often advanced that we need an increase of exports in order to pay for our imports.

The International Labour Office Report on *Unemployment, Some International Aspects, 1920-28*, indicates a similar dependence of employment upon export trade. Even such a comparatively little industrialised nation as Austria shows that its labour market during the period 1923-28 was entirely under the influence of fluctuations in the export trade. The same report has a significant series of curves for fourteen European countries, the United States, Canada, and Australia, showing that the employment curve corresponds closely with the price curve.

(c) *Britain's Trade Position*.—The general position of the *Decline in British Trade* in comparison with that of other nations can be seen from the

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following facts. In the first six months of 1930 the decrease in British exports expressed in money values amounted to a 15 per cent. drop from those of the same period in 1929. Eleven other representative countries show a similar decrease of 16 per cent. Both the export trades and the employment percentages in these countries show a decrease of about the same ratio in all of them. The falling off in British exports since 1929 has been by much the same percentage as that of the other industrial countries; before then our unemployment was greater in proportion. They have caught us up in depression.<sup>1</sup>

It has also to be pointed out that *world trade* is greater, not less, than before the war, both in value and volume, although the British proportion is less. Between 1913 and 1929 British exports decreased (on the basis of 1913 values) by over 17 per cent. World exports indicate an increase of 30 per cent.<sup>2</sup> Of this, the United States is responsible for an increase of 64 per cent. over her 1913 figure. Even the less industrial countries show a similar upward movement: Italy, 32 per cent.; Czecho-Slovakia, 35 per cent. From 1925 to 1928 the United States increased her exports from 75 millions to over 100 millions, and Germany from 48 millions to over 58 millions.<sup>3</sup>

In 1929 Europe consumed more, and imported more than in 1913—but not from Britain.<sup>4</sup> This

<sup>1</sup> I.L.O. Report.

<sup>2</sup> Sir Arthur Salter in *The Times*, 8th Dec. 1930.

<sup>3</sup> *The Times*, 10th Nov., 1930.

<sup>4</sup> Article by A. Loveday, *Economist*, 25th Oct. 1930.

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decline in British trade with Europe has often been accounted for by the condition of European monetary expansion. But M. Siegfried in *l'Angleterre Aujourd'hui* has shown conclusively from Board of Trade figures that we have lost more of our trade to countries who had no depreciated currencies than to those who had.

The condition of the export trade in textiles may be taken as an example of this tendency. The world's total consumption of cotton increased from 23 million bales pre-war to 26 million bales in 1929-30. Britain's share in the piece goods trade dropped from 75 per cent. to 73 per cent. of the world's total between the pre-war days and 1925. In yardage of cloth it dropped 35 per cent. in the same period. In 1929 it was down 47 per cent. and in 1930, 51 per cent. In this industry which reflects sharply the British position, we can see the situation as one in which Britain is losing ground to her competitors in the world market for cotton goods. A large part of this loss is due to our former markets like China and India producing for themselves and other markets.<sup>1</sup> These few typical facts are sufficient to show the position as being one in which British foreign trade is declining because the market is being supplied from elsewhere.

Britain's exports now are 25 or 30 per cent. of her production. Before the war she had 16 per cent. of the world's trade, now she has 12 per cent. Now America has 16 per cent. as against 12 per cent. in 1913. The increase in American

<sup>1</sup> *Labour Research*, July 1930.

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export trade exactly balances the British decline—and that is apart from the other nations who are now in the field.

As these trade measurements are reckoned in price values, it is necessary to take account of the fall in prices over the same period. This means that the volume of our trade may not have declined to the same extent as its money values. Taking the figure of 1913 as a basis of 100, the drop in wholesale prices for Britain since 1920 is represented by 380 in that year and 143 in 1928.<sup>1</sup> Sir William Beveridge uses the 1900 figure as his basis of 100. That gives him the figure for wholesale prices in 1920 as 335 and in 1929 as 152. So, roughly, the volume of British external trade may have declined only about half of the percentage indicated in the decline of exports calculated in prices.<sup>2</sup>

Retail prices have not fallen proportionately so as to allow for larger consumption. Between 1924 and 1929, while wholesale prices fell by 24 per cent., retail prices dropped only by 6 per cent. For food only the wholesale drop was 24·6 per cent. and the retail fall was only 11·8 per cent., namely, less than half.<sup>3</sup>

But an important consideration is that, in spite of the fall in the value of our exports since the war, the *volume* of exports has slightly increased during the three recent years 1927-29, namely (on the 1924 basis as 100), 102·3 in 1927, 104·7 in

<sup>1</sup> I.L.O. Report cited above.

<sup>2</sup> Unemployment Table XLVII.

<sup>3</sup> *The Economist*, Jan. 1930.

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1928, 108·3 in 1929. This is 83 per cent. of the pre-war trade.<sup>1</sup>

It is significant that the position of the internal trade of this country has so little attention paid to it that figures relating to it hardly ever appear in public announcements. The computations summarised under the heading of "the national income" is something of an index. This was estimated to be about the same in 1924 as before the war, but taking into account the increase in population, it is lower per head, about 3 per cent. lower.<sup>2</sup>

Professor Bowley and Sir Josiah Stamp estimated the 1924 national income at £3800 millions. Sir Herbert Samuel estimates that of 1930 at £3600 millions on a conservative estimate. It may be, he says, £3900 millions. This, then, has not varied enormously—but the fall in prices indicate a smaller volume of business. The British *per capita* income has not increased since 1924, and real wages are little if any higher than before the war.<sup>3</sup> Against this, however, should be set Government's social expenditure for education, sanitation, sickness, accident, old-age and unemployment, which some economists maintain results in a real increase in social income.

The general position with regard to the export trade is that British exports in volume are below pre-war and are increasing less rapidly than those

<sup>1</sup> *How to tackle Unemployment*, Liberal Plan, p. 14.

<sup>2</sup> Royal Statistical Society, 1928. *Manchester Guardian*, Commercial, 22nd Nov. 1928.

<sup>3</sup> *Report of the Liberal Industrial Inquiry*, p. 39.

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of the world as a whole. At the same time our true export per head is much greater than that of any country in the world. The Liberal Report estimates that the export trade per head is represented in Great Britain as £12, 15s. 1d. per head, as compared with £7, 10s. 6d. for Germany, £6, 3s. 2d. for France, and £5, 10s. 5d. for U.S.A.

These tendencies in the trade position cannot be seen in their real economic and human significance without placing them side by side with the general productivity of this country and others over the same period since the war. The next chapter deals with this.



### III

#### WORLD PRODUCTIVITY AND LABOUR-SAVING PROCESSES

##### (a) INCREASED OUTPUT IN BULK

THE following selection of information gives but a faint picture of the real situation which has resulted from the application of science to production. We have made the selection partly at random owing to the enormous amount of evidence available, but also partly in the attempt to make it representative of production as a whole. The magnitude of this factor has, we believe, never been frankly faced, and some idea of it is necessary for the understanding of what follows. *The Clue to the Economic Labyrinth*, by Michael Flurscheim, should be consulted for the overwhelming developments which took place during the nineteenth century alone.

Taking the world as a whole, the increase in the production of food and raw materials over the pre-war maximum amounts in 1930 to an increase of 25 per cent.; and an 8 per cent. increase since 1926. Over the same period the population of the world has grown 2 per cent. With regard to manufacture, in the very countries which are distressed with unemployment the increase from

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1926 to 1929, taking the production of 1925 in each country as 100, was :

Great Britain	:	increase in manufacture	from 100 to 112
Germany	”	”	” 95 to 122
United States	”	”	” 104 to 113
Canada	”	”	” 117 to 154 <sup>1</sup>

On the capacity of Britain to increase her own food supply the following quotation is significant in view of the statement that we must always be *physically* dependent upon foreign trade :

“During the war years the gain in the output of home-grown food was 24 per cent.” This was at a time when most of our agricultural labour was out of the country and when crops were grown and stocks fed under abnormally difficult conditions. He further estimates that, if necessary, this country could feed itself from home production for forty weeks in the year, whereas in 1913 we only produced enough at home for eighteen weeks in the year.<sup>2</sup>

*The Times*, May 12th, 1930, records that the increase in productive capacity of the basic industries since 1913 has been far greater than the growth in the volume of international trade..

### *Labour-saving Devices*

Stuart Chase gives many varied examples of displacement of human labour. By means of a new electrical hand-saw one man takes the place of four ; a power chisel does the work of ten men. The dial system on the telephone takes the place

<sup>1</sup> *Memorandum on Production and Trade*. Economic and Financial Section of the League of Nations, 1930 (Constable).

<sup>2</sup> T. H. Middleton, *Food Production in War*.

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of switchboard girls for local calls. A single week records fourteen new inventions and discoveries. Seven men now do the work which formerly required sixty to perform in casting pig-iron. Two men now do the work which formerly required 128 in loading pig-iron. One man replaces 42 in operating open-hearth furnaces. A brick-making machine makes 40,000 bricks in an hour. It used to take one man eight hours to make 450. Simplex and Multiplex machines are eliminating the need for trained telegraphers—and the message is automatically printed at the receiving office. In type-setting a man at a central office can set type in offices as many as 500 miles away—and this has resulted in the dismissal of thousands of printers in U.S.A.<sup>1</sup>

Offices are rapidly becoming mechanised. Hundreds of officials have already been displaced in the Treasury and Civil Service. There will soon be one hundred different kinds of machines in use in the departments: adding machines, adding typewriters, calculating machines, dictating machines, folding machines, book-keeping machines, tabulating machines, wire-stitching machines, envelope filling and sealing machines, stamp affixers, letter copiers, machines for opening letters. "When the transition (in the Civil Service) is complete it is estimated that there will be a saving of human labour to the extent of 500,000 hours a year. The annual saving in wages will be about £13,000 per annum."<sup>2</sup>

<sup>1</sup> *Men and Machines* (Jonathan Cape).

<sup>2</sup> *Daily Telegraph*, Jan. 26th, 1931.

## WORLD PRODUCTIVITY AND

Harvesting and threshing machines are displacing farm hands.

In the tobacco trade, a cigarette machine recently installed is capable of turning out 12,000 cigarettes a minute, or over 700,000 a day. Only three employees are needed to tend it and its productive service equals 700 pairs of hands.

In the Gas Industry the "Woodall Duckham" retort process is capable of carbonising 400 tons of coal per day, making 7 million cubic feet of gas. Twenty-two men are needed to work this plant, whereas before it took forty-four men to produce 4 million cubic feet of gas per day.<sup>1</sup>

In shipbuilding, during eight years, 154,337 men were eliminated by Rationalisation.

For the Building Trade the following modern inventions for dispensing with man-power were exhibited at the Building Exhibition:—Concrete bricks and tiles, and cast stone, new methods of paint cleaning, a process to eliminate blow-lamps, a machine for producing concrete slabs at the rate of 800 a day, a brick machine with a capacity of 3000 bricks a day. There are hoists and paint-spraying outfits, each of which can be worked by one man. In *The Building Trades and Rationalisation* a two million pound contract is referred to which was completed in twenty-one months. "It is estimated that in normal circumstances without mechanisation and job rationalisation, this job would have lasted from three to four years."<sup>2</sup>

<sup>1</sup> *The Commonwealth*, 1930.

<sup>2</sup> By R. Coppock (quoted in *Labour Research*, Nov. 1930).

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“It would require the labour of 3,000,000 hard working slaves to accomplish the work done annually in U.S.A. by energy resources. . . . The use of energy materials gives to each man, woman and child in this country the equivalent of thirty servants.”—(President Hoover.)

“The United States could to-day supply each person with the same amount of commodities as he consumed in 1913, and lay off two million people from work.”—(President Hoover.)<sup>1</sup>

*The Times* leader-writer of March 8th, 1931, writes: “‘We are obtaining,’ said an American writer in 1928, ‘more and better industrial equipment only at the price of a heavy investment in unemployment and human misery.’ The statement was true when it was made, and is truer still to-day. More than seventy per cent. of American bituminous coal is mined by machinery; steel companies now produce three times as much pig-iron as they did in 1914 with the same crew of men; a workman using automatic machinery can make 4000 glass bottles as quickly as he could have turned out 100 by hand twenty-five years ago; in the factories, on the railways, in the mills, and even on the farms labour is devoted to the more and more specialised but less and less skilful tending of machines. In 1919 the index of factory output (based upon 1914 as 100) was 147 and the index of factory employment was 129. By 1927 output had risen to 170, but employment had sunk to 115.

<sup>1</sup> At the Eleventh Annual Convention of U.S. Chamber of Commerce.

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In 1928 the farmers were using 45,000 harvesting and threshing machines and with them had displaced 130,000 farm hands. There need be no doubt of the gravity or the persistence of the problem which is implied, if it is not directly stated, by figures such as these. What is called in the United States 'technological' unemployment is a condition for which the cure has not been found and does not appear to be in sight."

### (b) MORE PRODUCTIVITY PER UNIT OF LABOUR

Along with the proportionate decline of British trade is the striking fact that in most industries there has been an increase in the productivity of labour, due to the use of more efficient machines and processes and other measures towards rationalisation.

The Chairman of the Dunlop undertakings records an increase per worker during the last five years of 150 per cent.

The United States figures show an increase in output per worker in the last ten years of 40 per cent.

The *Statist* of June 21st, 1930, gives tables for ten industries: mines and quarries; iron and steel; non-ferreous metals; engineering and ship-building; textiles; chemicals; paper and printing; leather, boots and shoes; food, drink and tobacco; gas and electricity, which cover 50 per cent. of insured workers and yet also contribute nearly 60 per cent. of the total number of un-

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employed. These tables show, firstly, that these industries in 1930 were producing 11 per cent. more than in 1924, while they were employing 8 per cent. fewer workers; secondly, that the output of the workers has increased per head by 21 per cent. during that period of years. In 1928 the increase over 1924 was 18 per cent., showing the rapid increase in production per head in one year ending March 30th, 1930, owing to the *beginnings* of a rationalising process. The *Statist* adds: "The increase in productivity of each worker has gone hand in hand with an increase in the number of unemployed."<sup>1</sup>

We may conclude this chapter with two significant quotations. The Balfour Committee Report said: "It is plain from the information before us that some of the undertakings which have been most efficiently equipped in the absolute sense, have been the least capable of competing under the conditions which have prevailed during the difficult post-war period."<sup>2</sup> The other quotation is from the Chairman of that Committee, Sir Arthur Balfour, in his personal capacity: "If it (the increased capacity in Britain for production) could have been estimated, it certainly amounted to much more than the normal increase which would have taken place in time of good trade—for perhaps four or five cycles of good trade. What therefore happens is that the moment there is any sign of an

<sup>1</sup> Quoted in *Labour Research*, Aug. 1930.

<sup>2</sup> *Final Report of the Committee on Industry and Trade*, 1929, p. 181.

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improvement in trade, and people begin to ask for quicker delivery, we very quickly let loose—much more quickly than was possible during good times pre-war, as the plant is there and waiting—a small fraction of our latent capacity to produce and instantly we are on top of the demand.

“If sufficient people go out of business, and if sufficient plant is broken up or dismantled, or put out of action by combinations, this might bring us a little nearer the time when we can have good trade for a reasonable period!”<sup>1</sup>

### (c) RESTRICTION OF OUTPUT

Measures to restrict the output of industries of all kinds would fill a book. We give but a few main examples.

India is suffering from the fall in cotton price, the textile slump, over-production of manganese ore and tea; British Malaya from a glut of rubber, tin and vegetable oil; Australia from wool and wheat; Canada from wheat; America has oil over-production, and copper, cotton, wheat, wool and rubber are also suffering. Efforts to hold wheat off the market are made by the Canadian Pools and American Federal Farm Board. Australian farmers tried to start a pool in 1930. Rubber producers have brought the Dutch into a restriction scheme. Tin producers have introduced a scheme of “production holidays” in the interests of restriction.

It is thus clear that the miseries attendant upon

<sup>1</sup> Letter to the *Times Trade Supplement*, Aug. 17th, 1929.



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trade depression and unemployment are due to no defect in the capacity of Britain and the world to produce goods or deliver services. Our actual production per head is to-day greater than that of any European country. Our problem lies in the fact that our production per head has failed to increase as rapidly as that of our competitors. We have been increasing our production but at a proportionately slower rate than the rest of the world.

Why an absolute increase in our productive capacity should be converted into an economic disaster and an actual slowing up of production, merely because that increase is not now so rapid as in the world at large, is the curious paradox which this book attempts to bring out into the light.

## IV

### THE SIGNIFICANCE OF SOME PRESENT TENDENCIES

THE situation described in the last two chapters may be stated as one in which British Industry is actually employing less capital and less labour than formerly. Chapter II indicated that this was partly due to the rest of the world obtaining a larger share in the world's trade, that is to say, other countries are supplying markets, both abroad and in Britain, which were previously supplied by British Industry. Chapter III showed that this decline was also due to machinery and science enabling industry to have a larger output per unit of capital and labour. Britain is certainly subject to both tendencies; her former market being now sated or largely supplied from elsewhere and the number of her productive units ceasing to grow at the rate at which technical developments have displaced labour from each unit. It is important to keep this double development in mind, because it means that the effect of technical development upon employment can be hidden in periods of expanding trade, and that the volume of employment can decrease even though the volume of trade increases. This suggests that we may now be

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having to face for the first time the significance of the technical development because of the decline of our world trade. This conjecture is strengthened by the avowed aims of two important programmes to meet the situation, both of which endeavour to recover the market from the foreign competitor.

The first is *Rationalisation*, with its eye on the foreign market and with the aim of securing that market from the foreign producer. The second is *Protection*, which is interested to recover the market at home and aims at securing the home market from the foreign producer.

### (a) RATIONALISATION

Rationalisation might be described as the planned attempt to increase a country's share in the world's trade by selling more cheaply than the foreigner does. It is to be accomplished by a lowering of costs and effected by the merging of manufacturing capacity; by the closing of redundant or the less efficient productive units, thus eliminating waste and loss, production being concentrated in the best equipped shops; by the standardisation of materials and products, and by concentration of selling and marketing organisation involving in some cases the elimination of the "middleman." In brief, it is the reorganisation of the technical, commercial and financial forces of an industry to secure efficiency in manufacture, economy in production and selling costs, and its purpose is avowed to be "the mobilisation of the fighting forces of an industry against the attack of

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the foreign manufacturer.”<sup>1</sup> The essence of Rationalisation has nowhere been more clearly stated than by Professor T. E. Gregory in his presidential address to the British Association, 1930. Its outstanding result is “an increasing—in some cases a very largely increasing—output per worker. These associated organisational and mechanical changes have, therefore, the result of economising the amount of labour *directly* required per unit of output, and—in so far as the distribution of goods over space and time is itself rationalised—of involving also *a net reduction in the amount of labour required to place a unit of output in the hands of the final consumer.*”

The proposal for Rationalisation is intended to meet the situation in which the industries concerned exhibit a surplus capacity for production in relation to the present demand for their products; the orders which these industries obtain are not sufficient to “go round” and keep them all in a condition in which they can recover their costs. In other words, there is more productive capacity than can be used profitably at the price the market is willing and able to pay: or, conversely, there is not enough demand with the requisite buying power to meet the costs of industry working at that capacity, the expectation of which has brought it into being on its present scale. Or, to put it still another way, the world price level is too low to allow industries to make reasonable gains or even in many cases to prevent their incurring losses.

<sup>1</sup> Sir Mark Jenkinson in *Some Aspects of Rationalisation*.

## SOME PRESENT TENDENCIES

In this predicament, Rationalisation is demanded for the purpose of reducing costs in the hope of bringing prices down to the buying power of the market and, in particular, lower than the prices of foreign producers. Reduction in costs is to be effected by a two-fold process:

*A.* By economy in the production and distribution of each unit of output.

*B.* In so far as there is a limit to *A*, restricting the number of units of output to the capacity of the market to pay.

Some economists, notably Professors Gregory, Henry Clay, Sir W. Beveridge, and industrialists like Sir Mark Jenkinson, insist mainly upon the processes involved in *A*. The Industrialists on the whole, however, seem to realise that effective consumer demand—demand backed by sufficient money—cannot be achieved to the extent necessary to keep the present scale of industrial capacity going, even by cheapened production. They therefore insist that increased production and distribution per head of employed population shall result, not in an expansion, but in a contraction of production. “Basically,” wrote Lord Melchett, “Rationalisation is simply the rational control of Industry to ensure that as far as possible you do not produce more than your market can absorb . . . it involves the use of every labour-saving and every fuel-and-power-saving device which, together with the elimination of every unnecessary link in the chain of distribution, results in a vital saving in the ratio of costs to output.” We have quoted Sir Arthur Balfour

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above to the same effect. This is on the whole the direction which Rationalisation has taken up till now, and it clearly accentuates the rapid displacement of income-earning services from industry and marketing.

Consider, then, the effects of these two processes in turn.

In so far as the productive and distributive process is made more efficient by Rationalisation, as in *A*, it achieves the same output with less labour or greater output with the same amount of labour. In the first of these two cases, what industry saves in payment to individuals can be taken off the price of its present output.<sup>1</sup> In this case trade in the home market as a whole is not improved, for the same amount of money is deducted from the community's earnings as is taken off prices. The sponsors of Rationalisation, however, frankly state that their object is to recover the foreign market.

In the second possible result of *A*, greater output with the same labour, if increased efficiency results in greater output with the present amount of productive and distributive service, the cost of the new total greater output will be the same as the present volume. *But the problem already is to sell the present volume in the actual state of the limited market.* If the market remains as it is, it will take only part of the new greater and cheaper

<sup>1</sup> Throughout this discussion industry must be understood as including the whole productive and marketing process, and labour as including all services necessary to place the output in the hands of the ultimate consumer.

## SOME PRESENT TENDENCIES

output and employment will be still further unrequired ; if the cheapening of the output now secures orders hitherto given elsewhere, the market may take the increased output of the capital and labour *now employed*. But it cannot *at the same time* serve to re-employ the capital and labour now disemployed without a disproportionately vast increase in the foreign demand at the expense of the foreign producer, for which there is no likely expectation even if it could be viewed with equanimity. This conclusion is even more alarming if we take into account that the rationalising process cannot on the whole be put into operation without incurring fresh debts either to investors or banks for new equipment and organisation. So that increased efficiency will hardly ever mean that the greater output can be sold for the cost of the lesser one. It will nearly always cost more. Reasons for this will be given in Chapter VI.

In so far as Rationalisation means a definite restriction in the number of productive and distributive processes, *B*, the result is a smaller total output at the same or lower cost, in either case by dispensing with a number of income-earning investors, producers or distributors. The market that now exists is secured for fewer cost-incurring businesses and their trade is thus assured as long as the market lasts. Unemployment is increased.

A close examination of Rationalisation offered as a cure for the "limited market" shows that the only case in which it can result in a greater volume of trade than the present volume, is the

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one in which there is greater production per head of existing working population, and this can only effect an increase in the export trade, for the home market is deprived of purchasing power as fast as costs are reduced.

Rationalisation can therefore only be a success, if at all, in so far as it is an attack upon the foreign manufacturer who is now serving the market we desire to secure. Such an attempt is taking place in a world where an increasing number of highly industrialised countries are trying to recover their costs from the foreign buyer and in that endeavour cutting down the costs which form the incomes of their own populations. Rationalisation appears therefore to be a vicious and contracting circle. The actual situation is one in which the market at home and abroad is limited in demand or purchasing power or both, far below the capacity of a developed world to produce and deliver real wealth. Rationalisation proposes to cut down production to the limit of ability to buy. The result is less production, and less income at home. Total prices and total purchasing power are reduced, and the logical result of attempting to meet the problem of the limited market in this way is an ever-contracting total of economic activity, tending toward the final end of No Production, No Consumption, Perfect Efficiency, No Waste, Everybody Dead.

A similar vicious circle foils us in the endeavour to recover the foreign trade in this way. If the foreigner buys more from us at our rationalised cheaper price of what he already buys from us at a



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higher one, we dispose of more goods but recover the same money. Our producing power and our employment are not affected for the better. If the foreigner transfers to us orders which he now places elsewhere some other part of the producing world is put out of work. Unemployment is exported. With the rest of the producing world labouring under the same difficulty of trying to export in order to keep its own producing interests going, recovery along this line is hopeless, even at the cost of the fierce international rivalry which a sustained effort at Rationalisation is bound to bring about, so long as the premises from which Rationalisation spring are left in possession.

These premises are all aspects of the assumption, held in face of the facts, that there is a necessary balance between production and consumption. On that assumption, every increase in efficiency should release capital and labour from one process, which will presently find employment in some new form of production which will add to the communal wealth, and which will create its own purchasing power by distributing costs. Also, it is believed, the supplying of large foreign markets will enable the rest of the world to devote to further production the effort and equipment hitherto used in supplying the market we now supply. This assumption is obviously discredited by the facts; but it gains plausibility from a superficial reading of the history of foreign trade over the past century. The older industrial countries were able to maintain employment by virtue of the expanding world market, and the

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shunting of labour on to the selling side of industry. The real displacement of labour by science remained hidden so long as the foreign trade of the country was able to expand at the requisite rate.

No scheme of Rationalisation has shown precisely how it is going to recover prosperity. Its spokesmen have only asserted vaguely that it is "the only way." Some have been frank enough to say that at any rate it is the only way to prevent unemployment increasing, but that to cure the existing depression it does not aspire. The examples of Germany and the United States which were given a few years ago in support of this vague hope now strengthen the doubt. The contraction of the foreign market now throws us back on the fact that we have never succeeded in squarely appropriating the benefits of technical development and that this failure is the real ultimate cause of the problem.

Rationalisation is admittedly the speeding up of a process which has been going on for a century. Industry has continually increased its productive capacity under the spur of the creative human impulse and a reasonable play of competition.<sup>1</sup> Under the spur of trade expansion many men displaced have found employment in the distributive and administrative employment, and the whole process has only been compelled to slacken by forces which lie in the distributive and selling mechanism, as any technician or sales expert will

<sup>1</sup> See an industrialist's contribution to the discussion on Rationalisation, *The Economic Journal*, Sept. 1930, p. 368.

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testify. Rationalisation is a new name for an artificial and panicky attempt to override forces that have never been properly understood, by speeding up and organising the very process which has brought about the present catastrophe.

On its purely business side, Rationalisation is a donkey and carrot arrangement, in which industry strives to reach solvency by quickening its pace without examining the nature of the gear which separates while linking them together.

In its wider aspect Rationalisation is the death dance of industrialism wherein the twin partners of labour-saving technique and work-demanding theory rush round to avoid recognising their fundamental incompatibility.

### (b) PROTECTION

The conversion of a growing number of Free-traders to some measure of Protection is one of the most significant political events of the last few years. It is advocated on the grounds that, the world situation being what it is, recovery must come from a development of the home market. Protection of British or Empire industries by tariffs or other means, it is contended, will tend to conserve employment at home and give the home population the earned income now secured by the foreigner, besides discouraging imports and thereby encouraging a "favourable" trade balance.

In spite of all the hair-splitting discussions, there can be no doubt that the essence of protec-

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tion, by providing people at home with more work and incomes, confronts them with higher prices. Protective measures encourage the purchase of home products, either directly by preventing the import of foreign goods, or by taxing them so that the home products are higher than the untaxed foreign goods but lower in price than the taxed foreign ones. You have more incomes at home and more prices at home added to the unprotected incomes and prices. There can on the whole be little net gain in relief to the *existing* selling problem; there may be extra provision of work at home. Clear-sighted protectionists admit that, taken all round, the consumers pay in higher prices for what they gain as employees, but it is contended that there are compensations such as the benefits of full-time working, overhead economies due to security of production, and a future fall in prices owing to the increased capacity for production which it is hoped protection will make possible.<sup>1</sup> Here the protectionist physician of our economic ills meets the free-trader on the common ground of error, and neither is able to elucidate his own fiscal policy as a resolver of the problem of the limited market. It is just the failure of increased productive capacity to bring prices down *and at the same time to sell the cheapened product without loss*, which has brought about the

<sup>1</sup> For the theoretical backgrounds of this hope see Friedrich List, *The National System of Political Economy*, Lloyd's translation (Longmans), pp. 100 ff.; also O. Spann, *Types of Economic Theory*, Tr. E. & C. Paul (Allen & Unwin), p. 187 ff., and A. J. Penty, *Protection and the Social Problem* (Methuen), chap. xi.

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present situation, where lower prices lead not to increased sales but to industry in various ways going out of business.

Protection will provide more incomes at home by allowing more production at home for the home market. The enhanced incomes may enable the community to purchase the increased production—but the gap that already exists between productive capacity and ability to purchase its product at remunerative prices remains. There is of course a diminution of imports; if those imports are the foreigners' payments for our exports to them, our export trade suffers. Industries which supply the home market recover at the expense of those which supply the foreign ones. The logic of the international trading situation which we have seen to hold in the case of Rationalisation applies here also. Both Rationalisation and Protection as remedies for industry's present plight attempt to recover employment from the foreign producer, one in the export market and the other in the internal market. Recent Press correspondence shows that the new converts to protection demand the political assistance of Protection to Rationalisation which, they feel, is itself not a practicable solution of the selling problem. Their free-trade critics maintain that Protection is a device to dodge the necessity of Rationalisation which they hold is the only way to reduce costs of production so as to benefit our export trade. The fact is that no change of fiscal policy one way or another will affect the total unemployment situation, though it would certainly result

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in some redistribution of the present volume of employment.

It is significant that a few years ago there was a widespread demand for a pulling down of tariff barriers ; but the 1929 report of the International Labour Office on Unemployment concluded that " From the International point of view the unemployment would not be eliminated but merely redistributed." We have pointed out elsewhere that the see-saw of fiscal controversy reveals the same irrelevance to the total situation as the inflation-deflation or stabilisation discussion.<sup>1</sup> " Advocates of both fiscal policies recognise the inadequacy of purchasing power. Protectionists are concerned with the earnings of the population, and demand protection for employment ; Free-traders fasten on the price element in purchasing power and claim that low prices are decisive." But they have not effectively met the challenge of the late Joseph Chamberlain : " What is the use of a cheap loaf if you haven't got the money to pay for it ? " " Protection and inflation have the same faith that earnings matter most ; Free Trade and deflation that prices are crucial. Both attitudes assume the riddle of inadequate purchasing power, but fail to keep in mind that purchasing power is a ratio of earnings and prices, and cannot in the long run be altered by changes which affect both factors in the same degree," or which stabilise the gap between incomes and prices at any level.

<sup>1</sup> *The Just Price, an Outline of the Mediæval Doctrine and an Examination of its possible Equivalent To-day.* Ed. by V. A. Demant (Student Christian Movement Press), p. 125.

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In view of the nature of the present economic problem, the fiscal issue is irrelevant, and the nations concerned will be well advised to retain their present fiscal policy until the true nature of the economic dilemma is understood. It may then be found that the controversy has a social and international relevance. If there were an economic equilibrium between production and consumption, Free Trade *versus* Protection would be an important, straight, clean, political and social issue. As an issue concerning ways of solving the selling problem, it is futile and evasive.

Nevertheless, the move for Protection, however it may fail of its object, is based upon a true sense of one aspect of the modern economic problem. Protectionists rightly point out that Free Trade was a possible policy during the period when Britain enjoyed a superior position in nearly every branch of manufacture and a world-wide commercial supremacy; a condition in which she captured all the markets she wanted by the facility and cheapness of her production and transport. Now, it is pointed out, this advantage no longer exists, and she has to compete with industries abroad both in the foreign and in the home market. To command the market by economic efficiency alone, which is the object of Rationalisation, is not possible. So Protectionists regard it as necessary to discourage the import of foreign goods which could be manufactured at home. Here they have hold of the truth, that the continuance of the country's

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export trade on the scale to which Britain has been accustomed is neither possible nor necessary. The desire to revive the home market by producing and consuming as much as possible at home is laudable and healthy, and to withdraw from the world scramble for export surpluses is one of the first conditions of international sense. But in the world situation where industrial nations all require expanding exports to meet their costs, protection is plainly a method of exporting unemployment to the foreigner who otherwise finds a market in Britain. If foreign trade were entirely an exchange of equivalent surpluses, and some foreign producers by sweated labour or other means attempted to undersell British products in Britain, then protection would be a commendable safeguard against the evils of *laissez-faire* in international commerce. As it is, however, protection today is a political instrument for increasing the advantage of a nation in its struggle for an export surplus.

Tariffs and prohibition of imports are canvassed as the only method for removing the menace of unemployment other than that of reducing wages, Rationalisation and the like. The sponsors of neither of these self-defeating measures show any signs of asking the question: Why should we need to compete with the foreigner at all? It has been pointed out by Professor J. W. Scott that Free Trade was inaugurated in a period when foreign trade was understood (whatever may have been the facts)



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as the exchange of surpluses.<sup>1</sup> Whatever goods or services were exported were reflected in an equivalent volume of goods and services imported. There was thus no material competition between Britain and abroad, but only competition within the home country. Whatever money was paid by Britain to another nation for imports had to be spent in Britain by that country for an equivalent of exports. Professor Scott ascribes the maintenance of this trade reciprocity to what he calls Britain's "national money," that is to say, money which could only be spent in Britain, as distinguished from gold and other international means of payment, and he claims rightly that this provided a form of protection to the home producer. Without committal to the money aspect of the case, we endorse the general principle that trade reciprocity is the best form of the kind of security which protectionists are now delusively seeking by restriction of imports.

It cannot be too often repeated that the additional volume of employment which protection is now seeking to recover is an increase in employment for the supplying of the home market, to compensate for the decrease in employment resulting from the diminution of the foreign market, and that the volume of employment which has hitherto supplied the foreign market has largely depended upon a rapidly expanding export trade over and above the necessity for paying for imports. Therefore no

<sup>1</sup> "Protection without Tariffs." Article in the *English Review* (August 1930).

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amount of discouragement to imports, of which we export at least the equivalent, can affect the employment situation; and in view of the fact that under our present economic policy exports are the guarantee of employment in a world of nations seeking to export more than they import, to discourage imports is to deprive the rest of the world of the means wherewith to pay for their imports from Britain upon which our employment depends. We shall show later that this statement is not invalidated by the fact that our "favourable" balance (surplus of exports over imports) at present consists of "invisible" items such as shipping services and the reinvestment abroad of the interest on foreign investments.

The effect upon unemployment of the labour-saving processes indicated in Chapter III was disguised for upwards of a century by a continual expansion of production for an expanding market, both at home and abroad. Less and less was the export factor in this expansion balanced by equivalent imports, the tendency of the last sixty years being predominantly to sell abroad on credit and to achieve employment by the export of capital, which in effect means refraining from the import of goods to which such export constitutes a claim. The ultimate return on this in the form of interest has moreover been increasingly reinvested abroad. Now, it is this growing balance of surplus exports that has given us the volume of employment which we have come to regard as normal, a balance which has only decreased very lately owing to the break-up

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of the exceptional economic opportunity upon which it is based. In comparison with this factor, the restriction of imports is insignificant. It would not touch the main problem that *the decline in the expanding market for exports has brought us face to face with the fact that when the home demand and the foreign demand which represents our payment for our imported wealth are added together, both demands can be satisfied with a rapidly decreasing volume of employment.*

In view of this fact that the increase in export trade required to revive industry is a recovery in the surplus of export (over the equivalent imports) it appears that Free Trade and Protection, in the present situation, are after the same objective, an increase of exports relatively to imports. This leads us to the question of why such a growth of exports is necessary for economic solvency.

### (c) THE SITUATION IN THE UNITED STATES

As there is a considerable confusion of mind in regard to the real economic need for a certain volume of external trade, it is useful to consider the present position of the United States with her from six to ten million unemployed, in a state of precarious insecurity. It is often announced that Britain's need for an export market on a certain scale rests upon the fact that she depends upon the rest of the world for her raw materials and foodstuffs, and that therefore unemployment must be solved by recovering that

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world trade, under the penalty of starvation. *The Balfour Committee Report*, for example, asserts "The information before us amply confirmed that the only practicable means of ensuring a satisfactory volume of employment for the industrial population under reasonable conditions is to secure and maintain a sufficient flow of exports to overseas markets, including under the term exports not only material commodities but also those immaterial services which are sometimes termed 'invisible exports.' This basic proposition follows inevitably from the fact that the population of Great Britain is to a large and increasing extent dependent for its food and the materials of its industry on imports from abroad."

That Britain has this dependence is a fact, but that fact is not a reason for concluding that the unemployment problem is a problem because we cannot make sufficient exports to pay for our imports. To base the need for increased employment upon this dependence is grossly at variance with the nature of our export trade, and is denied outright by the similar unemployment situation in America.

The United States is not dependent upon foreign products except to a comparatively small extent, nor is she now externally indebted to any foreign power. Her need for an export market does not therefore depend upon the need to meet obligations abroad except to the small extent she chooses to import a small proportion of manufactures and raw materials. In the period 1923-28 her "favourable" merchandise trade

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balance (excess of exports over imports) rose from 375 million dollars to 1000 million dollars. She clearly needs no more employment and trade for the sake of paying for her imports. It is the surplus that is the crux, and it is mainly since 1918 when the United States began to be increasingly dependent upon the surplus of exports that she has been afflicted with a growing industrial and trade depression. The United States has an abundant food supply, unrivalled raw material and energy resources, as well as the most up-to-date industrial equipment. She has, moreover, the largest home markets of any country in the world. "With less than seven per cent. of the world's population and only six per cent. of the world's area, the United States is producing 39 per cent. of the coal, 35 per cent. of hydro-electric power, practically all of the natural gas, and 71 per cent. of the oil. It is producing, in addition to 60 per cent. of the world's wheat and cotton, 55 per cent. of the timber, 38 per cent. of the lead and phosphates, and 50 per cent. more of the copper, iron and steel."<sup>1</sup>

Collapsing industrial prosperity cannot clearly be attributed to the poverty of natural home resources in relation to population, as it is often so attributed with regard to Britain. The causes of declining industrial prosperity must be causes which operate in thinly populated countries with abundant natural resources of food and raw

<sup>1</sup> Ludwell Denny, *America Conquers Britain* (Alfred Knopf), p. 34.

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materials like the United States, Australia and Canada, as well as in the less self-sufficient countries like Great Britain.

The theory that the sting of unemployment lies in Britain's dependence upon overseas products is untenable, for the same problem now afflicts the three non-European nations who have no such dependence. America is rationalised, highly protected and self-supporting. It has no unemployment insurance and no powerful trades-union movement. It has all the conditions, each of which is said from time to time to be essential to the way out of economic depression in Britain. President Hoover took office for the purpose of safeguarding American prosperity. Now he is challenged to avert the worst effects of the depression in trade and large-scale unemployment. What are the alleged conditions of prosperity in America? In one of his election speeches Mr Hoover outlined his policy of economic imperialism. "With perhaps pardonable pride, I may point out some of the assistance which the government has given to *this great expansion of our export trade* through searching out opportunity for American goods abroad," and the continued increase in the volume of American exports fulfilled the prophecy made by the *Economist* in March 1929 that "an examination of the available data suggests that American manufacturing exports so far have been the merest wavelet compared to the tide that is to come." We have seen that America had a surplus of export merchandise over imports

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of 1000 million dollars in 1928, the year of the beginning of the collapse.

It has to be faced then that industrial depression does not depend upon a failure in the export trade, though the two phenomena may go together as they do in Britain.

There is no economic or human reason why the following situation afflicting the American farmer should depend for its solution upon the export of motor-cars: on January 3rd, five hundred farmers in England, Arkansas, stormed the business quarters of the town, demanding bread and work. They cried, "We want food and we want it now." "The merchants of the town must either move their goods or mount machine-guns on their stores." The only kind of explanation given in the report are such as these: the shopkeepers in an impoverished condition owing to agricultural depression, the failure of the local bank; a heavy fall in prices of agricultural products, inability to pay interest on mortgaged farms.<sup>1</sup> Here we have the essence of the whole problem in a nutshell. Food producers foodless. No failure in the soil, in the organisation, in the labour. Failure only in the buying, selling and money mechanism. Perhaps if the farmer got work on a bit of a motor-car for export he would get some money to buy the food he has already produced in too great abundance! Precisely, people are in want and misery, both there and here, because their employment is not required. But why is it not required? Because, owing to the technical

<sup>1</sup> *The Times*, Jan. 5th, 1931.

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advances in production, their real needs can be supplied without it. The export trade has been a means of keeping men employed when they produced more than the equivalent of what they consumed. When the export trade declines, as it does in Britain, or when it fails to increase at the rate at which science and organisation increase production, unemployment ensues. Every form of unemployment is therefore ultimately what the Americans have learned to call "technological." Only because the effect of technological advance has been masked by a surplus export policy does it appear that the problem is fundamentally one of declining trade.

We are now in a position to examine the real nature of the problem which has come to be known as "Unemployment."



## V

### THE PROBLEM RE-STATED : ITS NATIONAL AND INTERNATIONAL ASPECTS

RATIONALISATION aims at selling cheaper than the foreigner, mainly in the foreign market, so as to revive the industries engaged in the export trade. It is to be effected by cutting down dispensable costs, by increased production per head, or by restricting the number of productive and distributive processes. As the immediate effect is to deprive numbers of producers and distributors of the incomes which constituted the costs saved, the home market is contracted as fast as costs are lowered. It should be remembered that the export trade of Britain amounts to only 20 to 30 per cent. of her total trade. And we have seen that there can only be a growth of this export trade at the cost of strenuous international rivalry between industrial nations seeking for an increase of exports.

Protection seeks to make home-made products cheaper than those which come into the country from abroad, and by the increase of prices provides a subsidy paid by the rest of the community to the protected industries. The Protectionist idea of discouraging plentiful and cheap imports must be given the credit of meeting squarely the

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problem posed by the widespread, if largely unconscious, assumption that employment is the primary objective of an economic system. That assumption is embedded in the actual arrangements by which money income cannot on the whole be increased without more employment—and that regardless of the productivity of present employment. Under such conditions employment must be safeguarded against the competition of cheaper foreign production, for if employment is the objective, then the minimum return in goods per unit of employment must be sought, either directly or in foreign trade. In foreign trade it means the attempt to secure the minimum of imports for the maximum of exports.

But if the purpose of an economic system be regarded as the achievement of the highest standard of living, based upon possible production, with a diminishing volume of employment as an index of technical success, then the only kind of protection necessary is one secured by trade reciprocity. In this case, the concern is to see that the nation's exports are all matched by imports, and the cheaper the foreign products of the right quality the better, for there will then be greater return in goods per unit of export and of employment.

If the production of goods and services for export are balanced by imported goods and services, the possible standard of living is measured by the efficiency of production both at home and in countries with which the country trades.

With money income dependent upon employ-

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ment rather than upon production trade reciprocity is not sufficient. So for the sake of employment a certain *rate of increase* in the export surplus is sought, by both Rationalisation and Protection, from different ends.

This necessity for a rate of increase in the export surplus is shown by the *débauché* of American industry. Full employment on the scale upon which modern nations have based all their economics cannot be maintained there in spite of the American success in the export markets of the world, increasing as she has been her surplus of exports year by year over the last twelve years.<sup>1</sup> Moreover, the United States has the largest home market of any country in the world and the hope in which she pinned her faith, that "human desires are unlimited," has been shattered, at any rate in so far as the ability to implement human desires by purchasing power is concerned.

### (a) THE ALLEGED DEPENDENCE OF PROSPERITY UPON EXPORTS

In a condition of trade reciprocity, each nation importing the equivalent of its exports, the standard of living would be a problem of internal economics. Under this condition it would easily be seen that the present situation presents not a trade problem at all but the problem of providing the community with the standard of living based upon its production and not upon a certain

<sup>1</sup> Ludwell Denny, *America Conquers Britain* (A. Knopf), Chaps. iii and iv.

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volume of trade or employment, which are bound to diminish per unit of production as efficiency increases. This fact has not been faced precisely because the export surplus has enabled industrial communities to evade the rapid effects of technological and organisational disemployment for over a century. The export trade has been coveted for the sake of maintaining a certain level employment, not for the sake of goods and services. Details of the trade balance of Great Britain in 1929 show the position even in a year of depression, 1929.<sup>1</sup>

### IMPORTS—

<i>Visible :</i>	millions.
Merchandise . . . . .	£1221
Bullion and Specie . . . . .	71
Total Imports . . . . .	<u>1292</u>

### EXPORTS—

<i>Visible :</i>	
Merchandise . . . . .	£839
Bullion and Specie . . . . .	87
Total . . . . .	<u>£926</u>
<i>Invisible :</i>	
Government receipts from abroad . . . . .	£22
Shipping earnings . . . . .	130
Income from Overseas Investments . . . . .	285
Commissions, etc. . . . .	65
Other services . . . . .	15
Total . . . . .	<u>517</u>
Total Exports . . . . .	<u>£1443</u>
Export Balance . . . . .	<u>£151</u>

It will be noticed that the figure for the import

<sup>1</sup> *Midland Bank Monthly Review* (March, April, 1930).

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of goods is greater than for the export of goods. The "favourable" balance is made up by the figures representing services rendered abroad and "income from overseas investments," which forms the largest export item after that of goods. This item is included as an export because it represents the price (interest) upon capital invested abroad, which is not received in goods and services, but stands as a money claim upon the debtor countries. It is necessary to understand that the export of capital is in effect the export of goods or services, mainly capital goods like machinery, railways, etc., made on credit. Loans are raised in Britain to pay for British goods to be sent abroad. The foreign debtor then owes interest upon this investment to the bondholders in Britain. Every foreign investment is therefore surplus export. "When a country is a regular exporter of capital, its exports and imports must be so adjusted as to provide a continuous export surplus equal to the net capital exported."<sup>1</sup> "When a country lends abroad £1,000,000 in any form, she gives foreigners the power of taking from her £1,000,000 of goods, while she herself does not, for the time being, get any goods in return."<sup>2</sup>

"The funds for investment must be obtained either by exporting goods or by refraining from the import of goods to which we have a claim. . . . In any event the volume of things immediately available in this country will be diminished."<sup>3</sup>

<sup>1</sup> R. G. Hawtrey, *The Economic Problem*, p. 279.

<sup>2</sup> Alfred Marshall, *Money, Credit and Commerce*, p. 136.

<sup>3</sup> Professor A. C. Pigou, *The Economics of Welfare*, p. 621.

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“ Looking back on pre-war times, we find that even then European exports were possible only by means of extensive and continued granting of loans to the colonial world. . . . An indispensable condition for this export of industry, however, was that Europe advanced the necessary funds to the colonial world.”<sup>1</sup>

It is clear that the “ favourable ” balance is maintained largely because the interest on these investments is not redeemed in the goods and services of the debtor countries to their creditors, due mainly from the Colonial world to the older industrial nations. Britain’s “ favourable ” balance in any year means that the rest of the world is indebted to Britain to the amount of the balance. Since 1922 Britain has had a favourable balance, though it is not what it used to be. The Board of Trade figures are as follows :

Year.	Net Excess of Exports. Millions.
1922 . . . . .	£154
1923 . . . . .	102
1924 . . . . .	86
1925 . . . . .	54
1926 . . . . .	9
1927 . . . . .	114
1928 . . . . .	149
1929 . . . . .	151
1930 . . . . .	39
Total . . . . .	£858

<sup>1</sup> Gustav Cassell, *Memorandum at World Economic Conference*, 1927, pp. 35-37.

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Over those seven years Britain refrained from importing £858 millions worth of goods and services due to her for exports made to the rest of the world.

Two points require notice for a correct approach to the unemployment situation. (1) The depression in Industry has not affected, nor been affected adversely by, the export of goods and services in exchange for imported goods and services. These counterbalancing items continue to grow, even for Britain, and allowing for the change in prices. It is in the failure to increase the excess of exports at a certain rate that is the alleged cause of industrial depression.

There is good reason for the belief that one of the causes of the slow recovery of our trade is the fact that . . . "we have less to lend abroad, which means that our export trade is hampered."<sup>1</sup>

"The figures of our balance of trade suggest that our net foreign investment has been in fact in recent years on a much smaller scale than it used to be before the War."<sup>2</sup>

(2) There is no need whatever for Britain to increase her exports for the sake of imports. British imports are increasing, and we still have a "favourable" balance of trade. We could have all our imports of to-day and cut out all the exports represented by the balance figure, or we could have imported in 1929 over £100 millions worth without exporting a hundredweight of coal or a cotton shirt.

<sup>1</sup> Hartley Withers in the *Referee*, 1927.

<sup>2</sup> *Britain's Industrial Future*, pp. 19-20.

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The refusal of the creditor countries to receive their debts in goods and services (thereby only allowing their debtors to continue reborrowing) has placed these debtor countries in positions of incapacity to borrow further and precipitated financial crisis throughout the world. This has been shown conclusively in F. E. Holsinger's *The Mystery of the Trade Depression*.<sup>1</sup>

The debtor nations could send goods into the country to the tune of £150 millions per year without our having to employ a single man for half an hour in production for export. They owe it to us for surplus goods exported up till now.

More employment is not needed for the sake of paying for our imports, or for the raising of the standard of living. The standard of living could be raised up to a point, without further production, by wiping out the "favourable" balance and importing what is owed to us. It could be raised indefinitely by a full use of our productive resources if the whole of what is exported is matched by imports.

Why not? The question is really: Why is an export surplus considered the condition of national prosperity? In terms of goods and services it is a dead loss. The answer is that the export surplus is a means of employment and income. If the present "favourable" balance were wiped out by the import of so many goods there would be goods entering this country without being worked for now (though they have been worked for in the past). But so long as the problem this nation

<sup>1</sup> P. S. King, now unfortunately out of print.



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poses itself is not an increase of goods, but the maintenance of the particular volume of employment that it has required in the past, this would be a calamity. And in fact the whole commercial philosophy built upon the theory that an access of goods is a liability and an envoy of goods is an asset is based upon the same false equation between the volume of goods and the volume of employment. That false equation simply ignores the fact of applied science in production.<sup>1</sup>

Applied science, which in essence is the tapping of natural energy to replace the expenditure of human muscular energy, is effecting precisely the same thing as would be effected by the receipt of goods and services from abroad, whether in the form of interest on investments, reparation payments, or settlement of old debts. It is providing the country with real wealth which is not earned wholly by present employment. To send goods away and to keep goods out has therefore been a temporarily successful means of disguising the real effect and dispensing with the real benefits of technology in industry.

What then is the ground of the assumption which runs through every official economic pronouncement, that it is economically necessary to have more economic activity, in the sense of enlarging the volume of human employment—and this from people who in the same breath recognise “the paradox of impoverishment through plenty”

<sup>1</sup> On industrial expansion as a means of dodging labour-saving, see A. J. Penty, *Towards a Christian Sociology* (Allen & Unwin), chap. xviii.

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and that it is not production nor "human desires that set a limit to consumption?"<sup>1</sup> Human nature in its pride has a curious habit of missing the obvious, and the obvious question whether the depression of industry and trade may not be due to our having too much of them is never asked: or if asked, the questioner is regarded as queer. What makes this question sound queer is the fact that as things are, people get their purchasing power by participating in production or business, by selling labour or by buying capital which yields income—in brief, by the multiplication of employment. As "the experts" see depression as the general failure of populations to buy the possible output of production at remunerative prices, they are apt, however much they speak of it as a selling problem, to fall into discussing how people are to be got busy in order to acquire more spendable income; and this in spite of the fact already demonstrated that with the present scale of unemployment the world is suffering from what is called "over-production," whilst there is deliberate waste and restriction of productive resources, and frantic competition to get rid of production to markets or industrial competitors in other parts of the world.

Any technician knows that we can increase our production without any addition to the volume of employment, and with a possible large decrease of it, if the full capacity of industrial and agricultural production were not prevented from being used by the difficulty of selling the product.

<sup>1</sup> Sir Arthur Salter, *Times*, Dec. 1930.

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This applies to the home market as well as the foreign one. The limit to the full use of productive capacity is the same as the limit to the recovery of our balance of trade in goods—namely, as Sir Arthur Salter states, “purchasing power, or earnings.”

More employment is *not* needed for production. Nor, as we have seen, is it needed because we must export for our imports. It is *not* required to meet material demands. It is needed by unemployed producers in order to obtain a money claim on the world's output.

We are not suggesting that the productive capacity of the world should be kept stationary, but that it is useless to demand an increase of it until the question why the present capacity is unused and gives rise to a problem of poverty and insecurity is asked and answered. An increase of productive capacity before that question is answered is positively dangerous both to the standard of living and to international peace.

### (b) THE FALLACY OF “WORLD CAUSES”

The economists are never tired of telling us that exports pay for imports, and that the only way in which one country can ultimately pay another is in bullion or goods or services. All the mechanism of bills of exchange and bonds are secondary means to that end. By far the greater part of the world's trade is now carried on by the barter of goods and services, gold having become relegated to a very minor position in settling

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final balances. "The ability of one country to make payments to a second country depends entirely upon the possibility of transferring economic wealth from the one to the other. Naturally payment might be made in gold, so far as theory is concerned, but there is not enough gold in the world to meet all of the international payments which become due each year. In practice therefore international payments take the form of goods and services. If Germany has to pay one million dollars to the United States, she will, in practice, do one of two things. Either Germany will export goods to the United States (or to some other country to which the United States is indebted) or she will entertain American tourists during the summer and pay her debts to the United States with the funds so received. Other minor channels of payment exist . . ."<sup>1</sup>

To insist on this has been platitudinous, since Adam Smith exposed the fallacy of the Mercantilists. But the Mercantilist theory that production and trade are the objectives of an economic system is in full blast with our modern economists, industrialists and financiers. How otherwise explain the continual suggestion that we need a growing export trade for the sake of our standard of living in face of the facts that we have still a "favourable" trade balance? We have seen that with this balance of trade and the equipment unused or partially drawn upon at home, either

<sup>1</sup> Cyril P. James in "Economics of World Peace," *Annals of American Academy Social and Political Science*, vol. 150, July 1930, p. 79.

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for direct consumption or in exchange for foreign products, there is an ample potential supply of real wealth for raising the standard of living without exporting a ton further as a surplus export and without adding to our productive equipment.

In terms of employment, however, owing to the scientific development of the last 150 years, more export trade *is* needed to keep producers at work. Until this simple conflict of aims is squarely faced there is no possible solution of the "Unemployment Problem."

The foodstuffs, raw materials and so on that could be available to the mass of the people in this country by receipt of the "balance" owing to Britain, and the consumable goods which our own industries can produce in abundance, or the further consumable goods which could be imported in exchange for our manufactures, wait entirely upon one thing: a purchasing power in the home market equal to meeting the prices of the total home production. In terms of goods and services available, a growing prosperity in Britain commensurable with its productive capacity does not depend upon its foreign trade.

A full use of our productive capacity and a condition of trade reciprocity would however disclose the real magnitude of the substitution of natural and mechanical for human energy, and this neither our economic or social thinking is ready to cope with. Men are still thinking in terms of employment, and purchasing power is generally distributed in return for productive service, either direct or in the form of return

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upon investment for production, or for some economic distributive activity. Hence we have the spectacle of industrial and economic experts assuming that the primary need is for greater economic activity. And as the failure of the buying power of the home population to keep industry going has for so long been counteracted by sending goods abroad in the form of export surpluses, the problem is posed by them in terms of "world causes." Because the countries who used to buy from us are now supplying themselves and often becoming our competitors in other markets, we are bidden to regard "world conditions" as the crux of the situation. The buying power of the foreign market is said to be too low, and we are asked to contemplate the beneficial effects upon British industry of a raising of that buying power as, *e.g.* in India for the purchase of Lancashire cotton goods; or in European countries where labour is so cheap that they compete successfully in markets we covet.

But on the experts' own assumption that international trade is in effect an exchange of goods and services, the only buying power we can give the foreigner lies in our acceptance of their exports as our imports. It is impossible to secure increased buying power for British goods abroad while we cannot effect the increased buying power for their equivalent imports in this country. The "world causes" myth is therefore a mere evasion of the real problem which is a problem inherent in the *internal* economy of industrial nations. That problem is how to enable the population

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of a country to purchase at remunerative prices the volume of its total production, independently of the volume of employment required to effect that total production. If the cost of a certain proportion of that total production cannot be met by the purchasing power of the home population, and if that proportion is exported in exchange for imports, the consequent imports cannot naturally and without growing indebtedness be distributed in the home market. That is exactly what has happened and what has come to be described by a financial inversion of economic reality as the "favourable" balance of trade. But the *impasse* to which it leads has not been frankly faced because of the prominence given to the employment aspect of the problem. Nations have for so long attempted to achieve economic solvency by forcing exports on one another, that the inherent contradiction in the internal economy has been ignored.

### (c) THE CONFUSION OF THE ECONOMISTS

In face of the primary factors in the situation, namely, a standard of life for the mass of people far below the economic possibilities of the age, and insecurity for the whole community increasing with the growing efficiency of production, the nation receives little help from the professors of economic science.

The general confusion of economic thought was admirably illustrated at the International Chamber of Commerce meeting in Paris on

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December 5th, 1930. After an astounding list of so-called *causes* of the existing depression, including, for example, over production in relation to population, agricultural depression, unemployment, the closing of markets, the dumping of goods below the cost of production, the meeting was treated to two addresses. M. René Duchemin, president of the *Confédération générale de la Production Française*, said that the *prima facie* conclusion was that world production far exceeded the purchasing power of the consumers. Sir Arthur Balfour followed with the conviction that most countries would have to face a reduction in wages, without noting any discrepancy with the previous advice.<sup>1</sup> This contradiction in suggested policies could be paralleled over and over again in the columns of the British Press and economic journals, and the question-begging conclusions of this body meet their match in a similar report of the Unemployment Committee of the International Labour Office, which sets out as *causal* factors: excessive production and a contraction of outlets for industrial products, maladjustment between production and certain raw materials and industrial equipment and the market's power of absorption, inelasticity between currency and credit and world prices, disturbances in international commerce, distress caused to the workers by the rapid development of labour-saving machinery and the process of rationalisation. Again, one conference<sup>2</sup> decides

<sup>1</sup> Report in *The Times*, Dec. 6th, 1930.

<sup>2</sup> The International Chamber of Commerce.



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that one cause is the sharp fall in the cost of raw materials, retail prices not having moved downwards in proportion, whilst business in general complains that retail prices have fallen too fast while costs have not fallen in proportion.

When the economic experts try to pierce through this enumeration of the disease in order to elucidate real causes, we are treated to the most astounding contradictions. Sir Arthur Balfour, the industrial expert, tells us that the shortage or concentration of gold causes a disastrous fall in prices. Sir A. M. Samuel is equally emphatic that the fall in prices causes a gold shortage. Mr J. Maynard Keynes one moment appears as an ally of Mr J. A. Hobson and tells us that five shillings saved puts a man out of work for a day. Sir Josiah Stamp and Sir Hugh Bell incite the nation on the other hand to recognise that only more investment will save industry, and Mr Keynes in another of his moments advises us that the volume of investment is insufficient. The bewildered public is placed in the most difficult dilemma when its members have to consider whether to spend a surplus five shillings in helping the working man to get busy on the plant that is waiting and idle, or to invest it so that more plant and business organisation may be brought into being. Any attempted response to the cry for economy on a large scale is met by the cry of some distressed producer who is likely to be put out of work as soon as a particular economy is indicated.

The key to the contradictions produced in a

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widespread attempt to understand a problem is surely the discovery that the problem is wrongly stated. In this case it is worse than that. We have the problem correctly stated time and again, and then a complete ignoring of it when detailed examination is called for. Over and over again our public men have stumbled upon the real problem :

“ It is extraordinary and very odd that we should be suffering from the over-production of the things we want.”—(Mr Lloyd George.)

“ The modern world is suffering from the curse of plenty. Who could have thought that cheap and abundant supplies of all the commodities should find the science and civilisation of the world unable to use them ? ”—(Mr Winston Churchill.)

“ I fully share the view that the rate of production of raw materials and machinery has been out of all proportion to the possibility of their absorption in the world market.”—(Mr Albert Thomas, Director of the International Labour Office.)

It is clear that there is no problem of poverty in the physical or natural sense. The problem of production presents no serious difficulty to mankind. The physical and human resources of the world have far outstripped the limits which need impose poverty or insecurity. In fact there is no economic problem in the true sense of the word. There is only the problem of the terms on which society allows its members to participate in that achievement. In the modern world those terms or conditions are

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centred in two things: the employment system and the money system. In earlier ages of human history, namely, from the beginning of production with agriculture until the large-scale use of natural and mechanical energy in the last century, the productive system was almost entirely an employment system, and whatever money systems were in use merely served to relate employment to production in a more diversified way as the division of labour took precedence over each man producing the materials for his own consumption.

The present generation of economists continue to reason and to preach on the assumption that the productive system is still predominantly an employment system and accept uncritically a money system based upon that fallacious equation. Mr John Maynard Keynes has written a most exhaustive *Treatise on Money*<sup>1</sup> without any attention to this fact. Hence, instead of a treatise, analysing the function of Money in itself or in a normal society, or under changing real economic conditions, we are treated to a description of the ins and outs of the present financial system with some suggestions as to how it might be helped to continue working. The net result of his advice is that the volume of savings must be used to increase the volume of investment. In other words more production must be financed in order to continue a system by which increased production has brought itself to a standstill. But the only reason why the volume of investment falls below the volume of

<sup>1</sup> *A Treatise on Money*, 2 vols. (Macmillan).

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savings is that the productive system is coming to a standstill, and that because the enlarged productive capacity which would be created by investment can with increasing difficulty find a market for its output which will yield a profit or even barely cover the costs of production. Mr Keynes' argument eats its own tail because he can see no way of using man's victory over the productive problem. He assumes that the productive problem still exists, because he cannot avoid seeing the employment problem which does exist, and in common with his less clever confrères he takes for granted that the two are the same. He therefore picks about at the possible ways of manipulating savings and credit for production!

Professor Henry Clay delivers himself of the following striking admission while entirely ignoring its significance, for he leaves it in the air without more than a desultory and non-committal comment upon credit for more production.

*"If we leave money and credit out of account, there is obviously no theoretical impossibility in employing men, who at present are being kept doing nothing, on plant which is also idle, at any useful work within their capacity and for which materials are available. It is the complications of a money economy that make it difficult"*<sup>1</sup> (our italics).

Does Professor Clay realise what he has here written? His book is a plea for Rationalisation, which he admits "must inevitably be followed by

<sup>1</sup> Henry Clay, *The Post-War Unemployment Problem* (Macmillan), p. 130.

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unemployment." How it will serve to reconstitute the productive and employment situation he has no idea. He reveals only a blind hope that in time "it may be expected that the world's demand will grow up to its expanded productive capacity"<sup>1</sup> In face of the risk which this vague and unjustified hope expresses, the Professor ingenuously states that in terms of economic realities there is no problem. Instead of asking why a direct and easy economic step has to wait upon the complications of a money economy, and why a secondary economic mechanism like money is allowed to clog primary economic processes, he proceeds "in faith" to endorse the proposals of the money interests for reorganising industry on this self-defeating plan in order to make "the complications of a money economy" work on its self-appointed principles.

Professor Clay wants to lower the costs of production and distribution by Rationalisation, that is, by having fewer wages, salaries and dividends to pay. Sir William Beveridge concurs, though he is more concerned with the level of wages than the number of them.<sup>2</sup> They both agree, and are followed by hundreds of economists and business men in believing that the volume of real wages is too great in comparison with productivity. Whence the glaring contradiction between this widespread belief and the statements above quoted as to the curse of plenty? Surely,

<sup>1</sup> P. 85.

<sup>2</sup> Sir William Beveridge: *Unemployment*, 1930 edition, chaps. xvi and xviii.

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because something is taken for granted which should be questioned, and being taken for granted the contradiction, however obvious, is blinked at and fondly suspected of perhaps not existing after all. The thing that is taken for granted is precisely that the present employment system and the present money system are by natural "laws" correlated with the production system, which our analysis finds to be the root of all this fallacious economics. Let us see how the confusion looks in terms of this so-called problem of the standard of living being too high in relation to productivity.

The commonly accepted statement of the situation is that costs of production have risen faster than, or that they have not dropped as fast as, the level of prices. No explanation is offered of the disproportionate fall in prices except vague allusions to over-production, and a reshuffling of markets and question-begging phrases like "world causes." The fall in prices is taken as the datum line of the argument. Because prices have dropped for causes other than a natural fall in costs of production, industry is faced with inability to meet its costs by the only level of prices at which it can secure a market. This is a fact, and the economists are completely unable to account for it. "Over-production" or "an inadequate market" are the catchwords offered as explanations, and their use is a destruction of the whole theory upon which the cry for increased productive efficiency, more savings for production, economy in public expenditure and wage reduction, are based. That theory is that if

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energy and money are diverted from immediate consumption to production, the increased productive capacity brought about by the abstinence and work of the community will, by the law of supply and demand, lower the costs of production, and that the consequent increased output and fall in prices will more than make up to the community its initial abstinence from consumption.

It is significant of confusion in the realm of economics that in the actual situation "the law of supply and demand," which economic and business thought has commonly held up as a "natural" law imposing limits upon economic change, has manifestly ceased to work, and that its non-working is, contrary to the moral usually drawn, causing an intensification of the struggle for existence which its operation should be rapidly easing with the present productive achievement of the world.

Here is a fall in prices which has *not* been accompanied by a fall in costs. Costs are largely the moneys distributed by producers to the community for materials and services. If increased trade and prosperity will follow from increased production per head because, according to the theory we are criticising, prices will fall slightly faster than costs, still more should an increase of trade and prosperity follow from a fall in prices not accompanied by a fall in costs, as is alleged to be the case now. But of course no such thing is happening. The fall in prices is not generally resulting in increased sales but in producers being in one way or another forced out of business. If

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this is going on now, it will go on worse if the costs forming wages, salaries, profits, taxes, etc., come down as well, for they are somebody's income and they are the only means of purchase which the orthodox economist can allow for.

The fact seems to be that the economists have abdicated their task of understanding the processes of wealth production and distribution. They are engaged in an interminable and desultory wrangle over secondary matters, and they offer as diagnoses learnedly dressed descriptions of the symptoms, such as movements of gold, fall in prices, lack of confidence, inadequate savings, political unrest and so on. And when they manage on occasion to break through the mutual contradictions which arise from attention to the symptoms and venture a pronouncement on policy, it is usually advice completely irrelevant to the economic realities of the problem.

### (d) THE REALITIES OF THE PROBLEM AND ITS MONETARY DISGUISE

“Leaving money and credit out of account” the Unemployment situation can be stated simply. The machine and the use of science in agriculture and industry has rapidly replaced human energy. Unemployment is primarily “technological” in its origin. The productive capacity of the world has far outstripped its rise in population. Unemployment has been in developed countries falsely regarded in nature as a problem of increased trade, because increased trade has enabled the



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nation to preserve employment in spite of the successes of technology. In order to do this it had to be trade in export surpluses. The industrialisation of a limited earth has made this evasion less and less possible, and industrial nations are faced with the alternative of commercial war to the death in order to carry it on, or of accepting the kind of trade reciprocity indicated above (p. 66), and consequently of tackling the really basic problem as one of internal economy.

As one of internal economy the problem before a nation like Britain is the problem of *being financially able* to distribute within its own borders the possible output, so far as required, of its fields, factories and workshops. That is an essential condition of being able to accept trade reciprocity in the international sphere. If the terms on which a population is allowed to claim the results of its own production are such that only a part of that production can be distributed at home, and the remainder has to be sent abroad, then the goods and services claimed in return from abroad will constitute a similar unsaleable amount. The efforts of industrial nations to prevent this equivalence of international indebtedness by forcing up exports and forcing down imports, visible and invisible, is further evidence that this is the real economic problem.

The difficulty of industry is that it cannot use its possible capacity up to the limit of real demand, because it would not pay it to do so. In estimating

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the full extent of this possible production it is necessary to consider at least three of the outstanding features of the situation. First, there is the fact to which we have already referred, that the actual output of the older industrial countries has been largely in the nature of an export surplus. Second, the colossal waste in the productive resources of the world, deliberately effected because of marketing difficulties which appear inherent in the world's money mechanism. This includes not only deliberate destruction of natural resources like raw materials, wheat, cattle, fish, but also the organised restriction of things like foodstuffs, rubber, cotton, copper, steel and so on. A large crop or supply is continually and openly said to mean economic calamity, and destruction of real wealth often referred to as having saved the economic situation. Produce and productive capacity are wasted because wealth cannot be distributed except at a financial loss. Third, in spite of these two factors of forced export and waste there still remains the fact that the productive capacity both of the agricultural and manufacturing industries is used at an efficiency far below its possible maximum owing to the difficulties of the selling problem. Unemployment, unused organisation, idle plant and machinery, the restrictive aspects of Rationalisation, are all parts of this unused capacity. These three phenomena account for an enormous amount of potential real wealth which is not now delivered to individuals, or in the case of surplus exports, delivered to their detriment in the form of

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unemployment abroad, increased competition and cumulative indebtedness.

A greater volume of employment is not therefore required for the sake of increasing productive capacity. It is required because employment or some other contribution to production is the only term on which most individuals are given a claim on the world's output. The economic problem clearly lies in striking the true equation between what the mass of people are allowed to appropriate of possible production and what they collectively are able to produce. The one factor in the situation continually shelved, applied science, has rendered the volume of employment a misleading measure of productive capacity. It is true that the "selling problem," which is the root problem, is complicated by the existence of unemployed persons who have no income except such as is deducted from the earned income of the rest of the community. But to re-employ the population on the former scale, without destroying our present equipment, would mean such an intensification of the existing waste, inefficiency, restriction and scramble for exports as would soon lead to the wholesale destruction of war.

Industrial countries can only fend off the results of the labour saved by technological disemployment by the lamentable expedient of maintaining an unemployed class who are surrounded by every element of social humiliation. Their plight is the price of social failure, and such demoralisation as their condition is said to

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engender is only surpassed as a social evil by the deception that the economic system could work if they could be re-employed. We are insisting that "unemployment" is not the primary problem, and that so long as it is so regarded, mankind is engaged in economic and social suicide. *The primary problem is that of enabling the productive system to deliver to the community the goods and services which it is capable of delivering with the amount and quality of employment required for that end.* The secondary problem is to secure an equitable apportionment of the work-saving achievement of the present phase of economic development, namely, a fair reduction of work all round. This problem is secondary, not in social or ethical importance, but logically in that it cannot be dealt with till the primary problem is understood. A solution of the primary problem would immediately reabsorb some of the workers and others now unemployed. But it would also release the whole productive and distributive system from the limits now set upon them by the "selling problem," including the incubus of an overweighted and redundant distributive and commercial system. It will therefore bring about a progressive diminution in the demand for productive and commercial service. That is the situation, and unless society is ready to face it as an achievement the industrial epoch is at an end and with it the history of Western civilisation. To face it squarely means that industry should not be expected to maintain or increase

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employment, that it should be expected rather to diminish it.

Having cleared away the economic lumber of regarding the problem as either an employment problem or a trade problem or a production problem, we can begin to see the real nature of the selling problem and why it is commonly mistaken for one of the other three. The buying and selling problem has been mistaken for an employment problem because the mass of people obtain their purchasing power in proportion to and on condition of employment. It is therefore that proportion and that condition that need to be revised owing to the effect of technical development.

The buying and selling problem has been mistaken for a trade problem because, in the first place, trade has succeeded to some extent in postponing the direct effects of technical development, and in the second place, because it has become the condition of purchasing power for traders, brokers, advertisers and hosts of others.

The buying and selling problem has been mistaken for a production problem because of blind faith that increased production would automatically increase purchasing power by lowering prices faster than it lowers the costs which constitute incomes. We have seen that it is the present situation in which prices have dropped faster than costs that constitutes the enigma before which current economic thought is helpless.

The present world situation is therefore a

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challenge to this generation to face once and for all the fact that employment, trade and production as human activities are means to an end, and cannot with our scientific achievements be given the same fundamental place in economic life as the real wealth which can be produced and which it is desired to consume. In regard to our primary problem we are left with the question, Why cannot the productive system deliver to the community the goods and services it is capable of delivering with just the amount and quality of employment required for that end?

Industry's answer is correctly that it would not pay. That is the buying and selling problem. Industry as a whole cannot recover its costs at its present low percentage of output. The world price level is an indication of the level of buying power, and it is clearly inadequate to prevent depression, not to speak of recovery. In other words, there is a gap between productive power and consuming power expressed in money terms. To attempt to bridge this gap by making more goods, making fewer goods, having more or fewer people to make them or move them about, is simply to shift the incidence of the problem presented by this gap from some sections of the community to others, while the real problem remains.

If there is no real economic problem "leaving money and credit out of account," the only line of approach left with any degree of reality is to presume that "money and credit" have been erected into a system which somehow has created

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this gap between production and consumption, which is kept open by the difficulty of meeting costs with the incomes available. We therefore devote the next chapter to an account of the most serious attempts to ignore or to deal with it.

## VI

### THE MAIN TYPES OF DIAGNOSIS

ALL serious estimates of the economic problem to-day acknowledge a defective purchasing power either at home or abroad, that is to say, defective in relation to the cash prices of the ultimate output of production which would pay industry to function at its maximum capacity. There are an increasing number of men with a grasp of public affairs who, without committing themselves to particular analyses, refer to a "mysterious" gap between production and consumption. Such, for example, is Mr Winston Churchill's reference to "the strange discordance between consuming and producing power—the mysterious crack and fissure (between supply and demand) upon which the keenest minds in the world should be concentrated."<sup>1</sup> In the House of Commons in April 1930, he said, "The world is still at a loss to know how to bridge the mysterious gap between the producing and consuming power." Lord d'Abernon, rather more confident as to the seat of the "mystery," told the Liverpool Incorporated Chamber of Commerce, on November 19th, 1930 :

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<sup>1</sup> Romanes Lecture, 1930.



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The crisis in world trade . . . does not proceed from any dearth or insufficiency . . . it occurs during a period of full production both agricultural and industrial. So much is this the case that the superficial complaint is over-production. Failure proceeds from inadequate facilities of circulation and exchange. It has been treated as a trade crisis, when it should have been considered as a crisis of currency in the first place, and a crisis of indebtedness in the second.”<sup>1</sup>

The puzzled attitude represented by Mr Churchill is shared by many who pin reliance upon a change in “the world situation” to happen somehow and somewhere and somewhen, which will set the whole international trading situation going again. Here the emphasis is laid upon the disturbance of international trading relations by the War, as it affects the export and import of goods and services, the export of capital, changes in the values of national currencies, complications due to reparations, the reshuffling of tariff barriers, the industrialisation of hitherto undeveloped areas. Such people are usually suspicious of any analysis of the problem and are fond of asserting that an economic problem of this scale must have many causes. Consequently they often pin much faith to the collection of detailed information as to the configuration of the problem from all parts of the world, and see no sort of effective social control of this problem except that embodied in international agreements, world parliaments or the League of Nations. They fasten particularly

<sup>1</sup> *Times* Report.

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upon that layer of the problem in which the relations of nations are the dominant factors. They are attracted to "psychological" explanations and lecture the public on the need for confidence, enterprise, co-operation and the putting down of suspicion, rivalry and insularity.

For all that this attitude demands there can be no inherent disapproval, but as evasions of the purchasing power problem by referring the source of the trouble vaguely to world causes, whatever that may mean, it is to be discouraged. The aim of all thought is to discover which of "many causes" are more fundamental than others, and the so-called "world causes," we have seen, are in reality world results. We have now to review the more serious diagnosis of the inherent production-consumption problem of which they are the results.

### (a) THE ECONOMY VIEW

What might be called the *Economy View* is represented by most of the economic and business experts, politicians, leading Press articles and correspondence. It assumes that purchasing power is automatically related to total production. It states that, whatever may be the immediate difficulties, if only production can be increased, in the end purchasing power will be adjusted by a lowering of price and everybody will be employed at a rising standard of life. The remedy is, therefore, more production per head.

In its economic aspect this view is expressed,

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with honest conviction, in the demand that "the costs of production must come down," echoed from every speech and Press notice, and exemplified recently in the advice of Sir Otto Niemeyer to Australia. The world price level, they say, is so low owing to the lack of purchasing power, and it does not pay producers to sell at the price which will effect the sale of all possible output. Costs must be reduced to make it a business proposition to produce. The conditions of lower costs of production are :

i. Increased efficiency by Rationalisation and human effort so as to lower production costs per unit.

ii. A readiness on the part of producers to receive lower remuneration in the form of either dividends, salaries or wages, until such time as the revival will allow for a recovery.

iii. Economies in marketing costs.

iv. Lightening the taxation of both industry and individuals. Recommendations for curtailing as much public expenditure as possible so that industry's burden might be lightened both directly by lower taxation, and by leaving more savings for further investment.

v. The direct encouragement of *thrift* for the sake of economy in consumption and for the *investment of savings* for further production.

A significant expression of this view is that continually put forward by the representatives of finance and banking like Sir George Paish and Sir Josiah Stamp, and echoed by economists like

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Sir William Beveridge and others. It consists in asseverating in the words of Sir Josiah Stamp that "more material welfare is coming to us all in the long run by a combined effort to produce the most, in the best way, than from a meticulous concern for the problem of distribution"<sup>1</sup> and in casting moral aspersions upon different non-financial interests for their short-sighted desire to spoil the ultimate results of faithfulness to this theory for the sake of avoiding an immediate sacrifice. Workers are blamed for bartering the economic welfare of their nation for the sake of an immediate mess of pottage, industrialists are lectured for lack of enterprise in not being up-to-date in their methods, politicians are literally called "barbarians" for allowing national sentiment and some elemental economic sense to prevent them from rushing into political or international measures which would remove the last hindrances to a frightful scramble for export markets.

This view embodies the general truth, that the real credit of the community is its productive capacity, but it utterly fails to observe that the present economic arrangements do not embody that truth. It is falsely assumed that this real credit is now accurately reflected in the purchasing power of the community. So the remedies based upon this assumption for bringing about a full correspondence between consumption and production take for granted that the correspondence already approximately exists, for only if it roughly exists can an increase in production raise

<sup>1</sup> Foreword to *The Road to Prosperity*, by Sir George Paish.

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that purchasing power. This view also faces the undoubted fact that productive industry cannot now be made to pay at the level of prices which the consuming world can meet. It assumes an equilibrium between purchasing power and production, the absence of which is the core of the actual problem. Only by ignoring the factual aspects of the situation can the solemn incantation of the word "economy" look plausible in face of the absurd deduction that what is required is more production per head.

The voice of industry is talking about salesmanship: it is the voice of finance, whether from banker or bewildered industrialist, that is talking about economy. A theory which demands economy conflicts with the economic realities of to-day. The root question, entirely ignored within these abstract categories of economic thought, is just why it would not be economical to purchase and consume the consumable and ultimate output of the productive equipment which exists and which is so largely unused because the sale of the output would not pay. This question has to be dodged precisely because we have "to take money and credit" into account. And the only conclusion possible with any degree of realism is that the "money and credit" system is not a true economic system at all, but that it has a theory, a method and a policy entirely unconcerned with true economic ends. From examination of this "economy" policy in the present situation it is not unfair to say that while the purpose of technical industry is to provide the maximum amount of

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output with the minimum expenditure of human energy, the effect of the "money and credit" system is to encourage maximum amount of productive service for the minimum of consumable output. If the actual "money and credit" system is taken for granted as reflecting economic facts, if money and credit are considered more real than goods, if bankers are believed to be nearer the heart of economic reality than producers and consumers, then at present "economy" is justifiable doctrine. Should we not then pray for a psychologist to show us how to disperse the painful illusion that there is unused productive capacity looking for a market?

But industry, as well as finance, calls for economy. Part of industry's harassed cry for lower costs is for less taxation. This is a real burden, and expenditure upon services paid for out of taxation truly deprives industry and the earning public generally of funds. When confronted with the obvious fact that to reduce expenditure upon social and public services deprives their human agents of purchasing power, industry's stock answer is that all such purchasing power is used in unproductive consumption. If, it is said, much of this were spent to increase productive equipment, costs could be lowered. And we are back again to our vicious circle. The one question that matters is not asked: "Why cannot industry recover from consumers enough money to meet its production and maintenance costs, and why has industry to demand that much of the community's purchasing power be not spent upon the

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output whose production distributed it, but be saved and invested for more production?" In brief, the economy campaign derives its plausibility from the fact of scarcity of purchasing power; it fails to touch the roots of the crisis, and its success would accentuate it because it evades the problems of scarcity of purchasing power side by side with a plethora of possible goods.

### (b) INEQUALITY OF ECONOMIC POWER DIAGNOSES

That inequality of economic power between the different sections of the community is the cause of a chronic and malignant economic dilemma, has been the view of most Socialist criticism from Karl Marx onwards. It also provides the economic basis of the Distributist demand for more universally distributed real property. According to the various interpretations of this inequality, as the root of the economic problem, proposals for solution differ. Here are in outline some of those which have been most fully thought out:

i. The abolition of all private property and the communalising of all social activities, as in *Communism*, so that the organ of the communist state shall be able to assure equality in the economic power it allows to individuals and economic interests.

ii. *The National Ownership of Industry*, so that the income of industry shall be socially disbursed, the state or its organs providing for the

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savings judged necessary for the development of production. This would remove the incentive and opportunity for individual and business saving on a competitive basis, and would make for the increased efficiency of industry now mismanaged under private enterprise and such competition as still remains.<sup>1</sup> This proposal is usually accompanied by highly developed schemes for increasing the public services and thereby removing the burden of economic insecurity inherent in the "capitalist system."

iii. "*The limitation of the income of the individual* both from fixed capital and from personal services and labour to the maximum limit of the practical expenditure of the individual." This is advocated by Mr F. E. Holsinger in his remarkably able work: *The Mystery of the Trade Depression*.<sup>2</sup> This exhaustive analysis shows that the immediate crisis results from the failure of industrial nations all to maintain the practice of exporting capital on credit upon the scale sufficient to meet the crisis by which they are confronted. The book is a refutation of the theory that an excess of exports over imports promotes the economic welfare of either creditor or debtor nations, and it denies that "employment" need depend upon that excess. The only basis for a beneficial system of international commerce is one of trade reciprocity. This, the author maintains, is

<sup>1</sup> See Bellerby: *Coal-Mining, A European Remedy*, for one of the rare accounts which precisely indicate the economic results of Nationalisation.

<sup>2</sup> P. S. King, out of print.



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prevented by the theory and practice of directing a disproportionate amount of production into fixed capital, mainly for export. The practice has been not only economically false, but by its breakdown has precipitated the internal unemployment crisis and the external indebtedness crisis, as in Australia. This formidable critic believes that under conditions of trade reciprocity, where exports are balanced by imports, there would be no internal selling problem, but that the full equivalent of the nation's production would readily find a market among the masses of the population. Trade reciprocity, however, demands the limitation of the higher incomes, so that these limited incomes will be spent upon consumption goods instead of seeking investment in redundant fixed capital. Mr Holsinger allows a high limit. He would have the State limit the income of the individual to £10,000 per annum, and consequently appropriate any income-bearing property held by any individual in excess of the value of £200,000 (assuming a 5 per cent. basis).

This proposal for the limitation of income at its source is based upon the alleged failure of taxation to produce that measure of equality which will solve the selling problem. "The limitation of the individual income is essential to the efficiency of taxation. . . . The taxation of the capitalist class is a fiction and a deception. . . . The redistribution of money income in the country by the redistribution of property is indispensable." This particular analysis repudiates the necessity

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of any form of socialism, apart from this limitation of income.

iv. *Proposals for Increased Taxation of the Higher Incomes.*—Of these we single out the analysis of Mr J. A. Hobson as appearing to us the most logically argued. It is described in a book written *ad hoc* in 1930, in view of the actual situation: *Rationalisation and Unemployment. An Economic Dilemma*.<sup>1</sup> This statement begins with an assumption, held in common with the upholders of the opposite (economy) view and challenged by the criticism considered later (IV), that “the income paid in rent, wages, interest, profit, salaries in the various processes of producing wealth ought *prima facie*, when added up, to make the sum needed to purchase all the goods, if it is used without delay in buying goods, the only use to which it can be put.”

The argument briefly is this. Much income is not used to purchase the output in the course of whose production it has been distributed, or its equivalent, because much of it is in the hands of a few wealthy people who only require part of their income for consumption. They therefore save and invest the remainder—*i.e.* they buy capital goods instead of buying ultimate goods. The returns on these investments tend to be re-invested instead of spent upon goods of immediate consumption. This produces a selling problem, because part of the money which should go to the purchase of the output of existing productions in

<sup>1</sup> Allen & Unwin.

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respect of which it was distributed, is spent instead upon bringing into being more capital equipment for further production. The difficulty of finding markets for this production leads to savings lying idle, and business being deprived of financial capital. The remedy is so to equalise incomes that no one will have more than he wants to spend and to provide for capital development by socially controlled instead of individual or private business savings. Mr Hobson favours taxation for public revenue and social services as the instrument of this redistribution of income, rather than higher wages, and he realises that in either case it will place the British manufacturer in a disadvantageous position in contrast with foreign producers who have not these higher costs to meet. He therefore admits that the equalising proposal can only relieve unemployment by becoming adopted on a world-wide scale, so that by international control for similar steps elsewhere, none of our competitors shall have commercial advantage over us.

This diagnosis calls attention to the dilemma that to secure the full results of rationalisation "an expansion of markets equivalent to the increase of productive capacity is admittedly required. The expansion of markets, however, is inhibited by the distribution of the product which Rationalisation effects under uncontrolled Capitalism. For it enhances the proportion of the price which goes in profits, reduces that which goes in wages. So . . . it prevents an adequate expansion of the market for the consumable

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goods which are the objective of rationalised production." To this we agree as a fact, but not as an explanation, since it implies that the dilemma can be resolved merely by making larger the administrative unit of industry.

Mr Hobson has also faced a fact which is slurred over by the "economy" school. He sees that if money distributed in the course of one process of business is not spent on the product of that process or its equivalent, but invested for further production, it will appear twice over in costs, though only once as purchasing power.<sup>1</sup> If I earn £1 for making a chair and do not buy the chair or some other article whose seller could buy the chair, but invest it to pay for making another chair, one of these chairs costing £1 will not be sold. For them both to be sold either the price of chairs must drop to 10s., which "economy" economics says will happen, but does not happen except as a loss to business, or the community must be enriched in money by an extra £1.

Mr Hobson also rightly sees that large inequality of income tends to create a selling problem of this kind because the high incomes tend to be saved and invested—*i.e.* spent upon capital equipment rather than upon consumable output. But one or two facts suggest that inequality of incomes is largely another result of more fundamental causes which at present make it, as economists have pointed out, the only way of carrying industry on. For one thing the volume of savings both idle and invested has declined since the war, in the

<sup>1</sup> Chap. III and *passim*.

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very period in which depression has become more and more acute, and indeed this is made a common complaint and a ground for "economy." The rapid increase of business depression has occurred in a period when there were fewer surplus incomes to invest. The mere fact of over-investment cannot therefore be a fundamental cause of industrial paralysis. Mr Hobson, however, argues that the present field for profitable investment is reduced because over-investment in the past has created a marketing difficulty; and so with Mr Keynes he believes that savings lie idle,<sup>1</sup> but his argument is that it is investment, not merely savings, that create the problem. If that is so, the fall in the volume of investment should ease the situation, whereas this has gone from bad to worse. The presumption seems to be that both business depression and the fall in investments have a common cause, namely, in Mr Hobson's own words, "that the enlarged productive power which they would set in operation by the process of investment could not be operated so as to yield profit, or even to cover costs of production."

We here catch sight of the fundamental difficulty, to which we shall presently return, that the process of paying for industrial development by investment of savings has broken down because industry cannot sell its goods, and it is likely that the process of having to finance production out of savings creates a selling problem which has now reached a serious culmination point, as

<sup>1</sup> See discussion in the *New Leader*, Jan. 16th and 23rd, 1931.

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Mr Hobson suggests.<sup>1</sup> But this difficulty would arise under any form of saving for industrial development, whether carried out by the community as a whole or by a few rich individuals. Mr Hobson seems to assume that a socialised method of saving will obviate the difficulty, or else he fails to meet the criticism of the more orthodox, represented by Sir William Beveridge: "If the whole of the national dividend each year were devoted to immediate consumption, and none to multiplying the means of production; if in fact there would be no saving, there would be no possibility of industrial growth."<sup>2</sup>

The defence of production by investment of savings assumes an equivalence between purchasing power distributed and the remunerative price of the ultimate product, and argues that however much income is withdrawn from the consumption market for the purchase of new capital goods, the increased productivity will bring down prices and bridge the original gap between prices and incomes available for the product. This does not happen; when prices drop as they have done recently, industry does not recover its costs by increased sales, but is increasingly put out of action. This diagnosis of Mr Hobson does not show that communal rather than individual investment will meet this situation. It is much more likely that the failure of both is due to some cause which demands savings of monetary income

<sup>1</sup> A similar analysis has been made by Mr P. W. Martin in *The Flaw in the Price System* and *The Limited Market*.

<sup>2</sup> *Unemployment*, 1930, p. 62.

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as the only way of financing production, and that this method which Mr Hobson sees as a cause is in fact an inevitable symptom of a deeper factor. This deeper factor is the non-equivalence of prices and incomes distributed, from which Mr Hobson's dilemma springs, but which he deliberately sets aside.

If for the moment we accept this as the ultimate cause of industry's plight which has taken a cumulative period to show itself violently, it does explain the growth of the widening gap between incomes of those which have money to lend and those who have barely enough to spend, a gap which Mr Hobson regards as at the root of the problem. If there is a malignant defect in the monetary mechanism of distribution, industry will be compelled for development to rely upon the investment of monetary savings from external sources rather than upon its own profits acquired through sales and prices. These repayable debts, with the selling problem, can only be redeemed by further borrowing, and the cumulative growth of indebtedness has brought about the concentration of lending power in smaller and wealthier groups. The inequality of income, of which the creditor-debtor relationship is the most socially harmful, is a result of a more fundamental defect, and by setting this aside Mr Hobson has given us an analysis which fails to explain how industry is to be financed in a way which is not open to the defects he has done so much to expose.

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### (c) CURRENCY AND CREDIT MANIPULATION

The problem of selling the product of a productive process when part of the incomes distributed through it are sent back into other processes of industry to form a new set of costs seems, as pointed out, only soluble under two conditions: either prices must drop, as current orthodox theory says they do, or new money must come into the process. With regard to the first alternative, we see that when, as now, prices do drop to meet consumer income, industry's costs are not met. This is industry's complaint at the present time. In the second case, new money would have to come into the process without going into prices. Either directly to producers to meet their costs which the consumer cannot meet, or else directly to consumers to meet industry's existing costs. Neither of these things can happen under present arrangements. There is no way under monetary theory and practice by which new money can be circulated except by entering into new costs and new prices. There is no method by which the gap between buying power and producing power can be bridged, except the illusory one which depends upon further production. In other words, there is some factor in financial accountancy which seems designed to defeat the general enjoyment of productive achievement and its work-saving advantages. And this is a problem which all merely redistribution-of-income theories ignore, such as Mr Hobson's, which is manifestly based



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upon the assumption that "employment" on its former scale is a good objective.

We have also seen that there is no real economic problem, in the sense of meeting economic need. An economic problem only arises because we have to take "the complication of money and credit" into account. We have further seen that "economy," while flatly contradictory to the real economic need of industry for buyers, at the present time only derives its plausibility because the financial side of business is commonly believed to represent its physical aspect. This leads to a suspicion that the whole monetary theory and practice of industrialism is not, as its administrators and professors affirm, merely a mechanism which reflects the real economic situation. If industry says "we cannot sell our goods," and finance says "economise," presumably finance does not reflect the facts but distorts them. Producers want to produce but cannot sell, consumers want to consume but cannot buy. And society is kept from examining whether there may be something radically wrong with the money mechanism of buying and selling by the continual suggestion that, as Mr Keynes is never tired of reminding us, money is only of value for what it will buy. That this is true as an abstract proposition is no reason for assuming that the money system is run as a truthful reflector of what there is to buy. That is the assumption which the most fundamental analyses of the situation seek to challenge. We have therefore to arrive at a view of the money system,

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and enter into some technical discussion, for without it it is impossible to see whether or not it has a policy, and what that policy is, which is the question we are mainly concerned with as religious and social students.

It is first necessary to get clear a fact of the money system which is difficult to grasp, because of the elusiveness of what is actually going on. It is that the money system is now predominantly the bank-credit system. There is no clearer exponent of this fact than Mr R. G. Hawtrey, the well-known Treasury economist. We can but refer the reader to the literature on the subject,<sup>1</sup> and give these short quotations :

Under modern conditions, bank credit is the most important part of money, and money comes into being and is extinguished in the form of bank credit. Banks determine the amount of credit they can create by reference to their cash reserves. But under the central bank system which exists in this and most other highly developed countries, the "cash" of the joint-stock banks is simply the obligations of the central bank, the Bank of England. By extending or restricting those obligations, the Bank of England can induce the joint-stock banks in turn to extend or restrict credit."<sup>2</sup>

"Bills and cheques passing through the Clearing House last year amounted to the enormous sum of £39,532,864,000, an increase on the previous year of no less than £2,905,272,000. All this immense turnover of

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<sup>1</sup> R. G. Hawtrey : *Currency and Credit ; The Economic Problem ; Trade and Credit*. R. M'Kenna : *Post-War Banking Policy* (Heinemann). Hartley Withers : *The Meaning of Money*. D. H. Barker : *Cash and Credit* (Camb. Univ. Press).

<sup>2</sup> R. G. Hawtrey in an address, *The Relation of Monetary Policy to Production*.

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money was accomplished without the use of a penny-piece or a pound note.”<sup>1</sup>

In 1928 the total “currency” of the country, including bronze, silver, bank notes, currency notes, was about £468 millions.<sup>2</sup>

The total bank deposits in December 1928 were £1,933,315,000.

“There is only one method by which we can add to or diminish the amount of our money. . . . The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. We know how this is effected. Every bank loan and every bank purchase of securities creates a deposit, and every repayment of a bank loan and every bank sale destroys one.”<sup>3</sup>

Credit differs from what is commonly called money in two respects. In the first place it figures, not on pieces of metal or government paper but as figures in the account of bank customers,<sup>4</sup> and is transferred from one account to another by means of cheques. As such it is

<sup>1</sup> *Observer*, Jan. 4th, 1925.

<sup>2</sup> *Daily Mail Year Book*, 1928.

<sup>3</sup> R. M'Kenna, *op. cit.*

<sup>4</sup> A simple way of understanding how credit functions as money is to imagine a small community which can maintain itself by manufacture and trade. Each member's property, stock-in-trade, and production is registered by figures in a book (calculated in the same unit). The exchange of goods and services can theoretically be made without any metallic or paper money, by the alteration of figures in that book, where each member's credit is recorded. When A sells to B, B sends a message (a cheque) to the bookkeeper (the banker) to say: write down my credit by so much and write up Mr A's to that amount. (Of course, in practice a certain amount of small change (cash) is almost a necessary convenience, and a banker now performs much more than the function of a bookkeeper.)

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quite effective money, and this characteristic of credit creates no problem. The problem arises from the second characteristic of credit as distinct from the more familiar forms of money, coins and notes of the realm, which is that whereas the latter remains with the community as a right, a token of existing real wealth, bank credit comes into being as a temporary form of money in that it is a "loan" of which the repayment "destroys the deposit." We are concerned with this second characteristic in connection with the analysis described in the next section. We here point out the grounds of what has come to be called the "Power of Finance," namely that banks, within the limits they set themselves concerning what is considered "safe," exercise almost complete control over the volume of money, in the sense of the world's media of exchange. "The banker is the final arbiter of the world's economy."<sup>1</sup>

The power to vary the amount of "money" in the community has been widely recognised as affecting prices, or the value of the monetary unit. If such changes affected all persons and processes equally they have no consequences.

If by a change in the established standard of value, a man received and owned twice as much money as he did before, in payment of all rights and for all efforts, and if he also paid out twice as much money for all acquisitions and for all satisfactions, he would be wholly unaffected. . . . but such changes have produced in the past, and

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<sup>1</sup> Dr Walter Leaf, Chairman of the Westminster Bank; address to the International Chamber of Commerce, 1921.

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are producing now, the vastest social consequences, because as we all know, when the value of money changes, it does *not* change equally for all persons or for all purposes.”<sup>1</sup>

These changes unequally affect in particular those whose main immediate concern, as regards their purchasing power, lies in the money they receive, and those whose main immediate concern lies in the prices they have to meet. Producers belong to the first category, non-producing consumers on the whole belong to the second.

The incidence of these variations upon employment has been widely recognised, and is thus summarised in the International Labour Office's *Report on Unemployment, 1929*.

The general level of prices is determined by the relation between the quantity of goods offered for sale at any given time and the supply of the means of payment available for the purchase of these goods. If the general price level rises, it may be taken to indicate that the supply of the means of payment has, for some reason or other, been increasing faster than the quantity of goods offered for sale. . . . Its effect is clearly that of a stimulus, perhaps artificial and momentary, but still a stimulus to business activity. This is one reason why unemployment shows a tendency to decrease during a period in which the general price level is rising.

Conversely, a fall in the general price level implies that the means of payment are relatively scarce as compared with the supply of commodities for sale. This being so, it may reasonably be assumed that there will be, in consequence, a slackening of business, which in turn will lead to increased unemployment.”

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<sup>1</sup> J. M. Keynes: *A Tract on Monetary Reform*.

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The report gives a number of curves showing for seventeen different countries the rough correspondence between the movements of unemployment and price curves, employment tending to rise when prices rise, and unemployment tending to increase when prices fall.

As the issue of bank credit is a major factor in affecting the price level, many have thought that the problem of business prosperity is mainly one of regulating the issue of credit on present principles. But in a situation when there is already a gap between spendable incomes and prices, it is impossible by a variation in the price level one way or another to bridge it.

An increase of credit, effected as it mainly is by loans to producers, gives rise immediately to increased production, but every one who is not a direct recipient of this credit is faced with rising prices and no rise in income. General inflation ensues and the insufficiency of purchasing power is merely redistributed among sections of the population. A contraction of credit lowers prices, lowers the standard of living of producers and causes industrial stagnation, bankruptcies and unemployment. Those with fixed and secure incomes benefit at the expense of industry for a time.

Because these opposite movements towards inflation and deflation have within them the seeds of their own limit, and because each inflicts injury upon the community in a different way, a number of influential economists and others advocate a *stabilisation* of the price-level by

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means of monetary regulation, in order to iron out business fluctuations and restore "confidence." Most of these suggestions propose to issue more money when prices are dropping and withdraw it when prices are rising, so as to secure a steady level of prices.<sup>1</sup>

If a manipulation of credit in this way could merely obviate the evils of both rising and falling prices, the characteristics of booms and slumps in trade, it would be commendable.

But there are some radical defects in the idea which suggest that the ineffectiveness, even if we grant its possibility, of stabilising prices is due to some deeper cause which lies at the root of trade cycles which have had such varied and some grotesque explanations. Stabilisation proposals take the trade-cycle for granted and merely attempt to counteract its effects. They give no satisfactory answer to the question: At what level are prices to be stabilised? At the present level, for example, industry is irretrievably ruined outright; if at a higher level the public as a whole is deprived of the benefits of industrial development to a greater degree than it is now. It may provide a fleeting incentive to industry, but it would fail to award the community the results of its technical achievements. Further, as has been pointed out,

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<sup>1</sup> See Irving Fisher: *The Purchasing Power of Money*. R. G. Hawtrey: *Currency and Credit; Trade and Credit; Monetary Reconstruction*. E. M. H. Lloyd: *Stabilisation*. P. Taylor Peddie: *The Dual System of Stabilisation*. G. Cassell: *Post-War Monetary Stabilisation*. J. M. Keynes: *A Tract on Monetary Reform*.

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Industrial activity is restricted by lack of orders. Orders themselves are limited by lack of money. What stabilisation proposals generally do is to provide that new production, *if followed by lower prices*, shall subsequently be followed by an increased money-supply until the former price-level is reached. The cart is once more put before the horse.

The argument against regarding price-stabilisation as a possible stimulus to industry has been neatly expressed thus :

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 new money is, under modern conditions, *the essential condition* of new production. . . . 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."

JOHN STRACHEY, in *Revolution by Reason*.<sup>1</sup>

Stabilisation as an endeavour to break the vicious circle involved in inflation and deflation is impossible because it fails to touch the problem from which the vicious circle springs, namely the existing selling problem and the substitution of natural and mechanical for human energy. It breaks down in theory--and it has never been

<sup>1</sup> Marshall Hattersley: *This Age of Plenty* (Pitman), pp. 156 ff.



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successfully put into practice—because it either paralyzes industry or deprives the community of the dropping prices which industrial efficiency should bring.

### (d) SOCIAL CREDIT

The primary problem remains: how to give the community that benefit while enabling industry to make a profit without which, Mr Keynes has lately reminded us, there can be no trade revival.

It is this problem which the analysis and remedy now to be described claim to explain and deal with. Dismissing all criticism which merely demands more money or less money or stabilisation as beside the point, it constitutes a criticism which *prima facie* appears to be relevant to the present problem. Thus it claims to prove that the consumer as such has been defrauded by the financial policy which has accompanied industrialism, and that the community as consumers is entitled to be credited with purchasing power to the extent to which this has been earned but not received by the community over the greater part of industrial history, as witnessed by the present unsaleable surplus and unused capacity. This is the *Social Credit* analysis of C. H. Douglas, costing expert for the Government during the War, and a civil engineer of world experience. This was first published twelve years ago in a book entitled *Economic Democracy*

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and sequels, in which the course of events since then was remarkably well predicted.<sup>1</sup>

Accepting the phenomenon of over-saving and investment as intensifying the selling problem, this analysis goes further back still and explains the disproportionate amount of monetary income which goes into creating fixed capital as a wrong tendency that was inevitable owing to a faulty theory of money and credit unrelated to the later developments of industry. According to this analysis, the growth of bank-credit as a means of financing capital development is evidence that the production of capital goods on the scale industrialism demanded could decreasingly be effected by the monetary savings of the community. New money of some kind had therefore to be devised and this was the accountancy money known as credit. It is quite valid money; it is theoretically indefinitely expansible—and is *created* by the bank for a customer on the basis of the bank's satisfaction that the customer can produce the goods which will represent and recover the amount of new money issued for their production. The criticism is that the principle upon which this creation and *withdrawal* of money are made fail to recognise that this credit-money should be the reflection of the

<sup>1</sup> C. H. Douglas: *Credit Power and Democracy* (Cecil Palmer), *Economic Democracy* (Cecil Palmer). C. Marshall Hattersley: *This Age of Plenty* (Pitman), with full bibliography. *The New Age* (70 High Holborn, W.C.1) comments upon current affairs from the point of view of this analysis. (7d. weekly.)

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community's economic possibilities and should therefore be administered as such, instead of which it is administered as though it were the possession of those who issue it in loans. Credit, in the course of being used to pay for production, ticks up costs and prices like gas flowing through a meter, for it has to be recovered through prices in the sale of the output in order that it may be repaid. This analysis asserts that, owing to credit being withdrawn and cancelled on the principle that it is a "loan," it ceases to function as purchasing power before all the business costs it has ticked up have been met. There is therefore a chronic tendency for the prices, through which credit is recovered for repayment, always to be ahead of the purchasing power available to meet them. This tendency, though counteracted by countless modifying factors, is the primary cause of industry's selling difficulties increasing with its capital development.

Two illustrations of the analysis are here given :

A bank customer has enough money to pay direct production costs (wages, salaries, etc.), but wants to build an addition to his Kettle Factory. The bank creates £1000 to pay for the extension, raw material, etc. £1000 plus *production costs* are paid out and are included in the price of kettles. The equivalent of the total amount of money disbursed (£1000 plus *production costs*) has to be recovered in the price of kettles. The cost of factory, £1000, is repaid to the bank, who cancels the "loan." The remainder of the money recovered in the price is used again to pay further production costs of kettles—but the cost of factory is not wiped out though the community has

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paid for it (*i.e.* delivered bread, boots and films and cocktails to the builders of the factory in exchange for £1000 now cancelled); a charge, such as a sinking fund or other arrangement for recovering £1000 to replace the factory, etc., when worn out is included in the price of future kettles. So after the loan has been repaid the community receives only wages, salaries, etc., representing the production cost of kettles, but it has to meet in prices not only this cost for which it receives equivalent money but the cost of factory of which it does *not* now possess the financial equivalent. There therefore tends to be a gap between purchasing power and prices which is roughly represented by the financial cost of capital equipment.

To look at the matter from another angle, if you conceive a series of productive processes, from obtaining raw material to completing a finished product, as being financed, each process, by a repayable bank credit. The producer in one of the later processes pays out his credit in two sets of payments. First (*a*) in wages and salaries and profits; second (*b*) in amounts which go to pay for previous manufacture, his materials, building, plant, some overhead charges, etc. The price of his output must be (*a*) + (*b*). Only the amounts represented by (*a*) appear as new purchasing power available to buy this product. The amounts represented by (*b*) and paid to producers in the earlier processes are used by hypothesis to repay their "loans," the repayment of which is the cancellation of purchasing power as far as this present process is concerned. These (*b*) payments have been distributed in the past as (*a*) payments of the earlier process, but have been spent in consumption, and again by hypothesis, cancelled the loans of the vendors of consumable goods.

Under these conditions there would tend to be at any time a deficiency of purchasing power roughly represented by the (*b*) amounts, the cost of capital equipment; and of course, if these conditions operated unmodified, industry would have come to a stop long ago.

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As it is, this crude effect has been modified by the intrinsic cheapening of production, the expansible world market, and particularly by the disguise affected by the continual issue of fresh loans. But this inherent defect in the financing of production shows, according to the analysis, that the greater capital equipment there is the more acute will be the problem of selling the ultimate products, though owing to the modifying factors it has taken a period of cumulative effects to produce complete deadlock. On this view, the total amount of money distributed is *not* available to purchase the product because an amount approximating to the cost of capital development tends to be withdrawn before the costs and prices which it represents have ceased to make claims on the purchasing power of the community. The Social Credit of the community is largely withheld from it.

This failure of production automatically to distribute enough purchasing power to market its product has resulted in some of the features of the actual problem which are often taken for explanations.

(a) It has meant that in order to carry on, industry has had to incur greater and greater indebtedness both to the banks and also to those in the community who had money to spare from consumption. So the investing section grows smaller and richer and inequalities of money power become accentuated.

(b) It has demanded a growing export surplus in international trade, to get rid of production

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which is not marketable at home and of which the imported equivalent is consequently not marketable. As the scale of employment we are accustomed to has depended upon this expansible world market, the collapse of the latter, which undoubtedly is the occasion of unemployment, looks like the cause.

(c) It has encouraged the hypertrophy of manufacturing industry and the development of an over-industrialised and over-trading world. This it has done because the *impasse* which has its roots in the defective purchasing power distributed through each process of production could be, and has been evaded by the issue of money in respect of further processes. Industry has, therefore, been able to postpone the ultimate consequences of its financial difficulties by extending itself. Hence the fetish of industrial expansion as a measure of prosperity, which has been responsible for so many calamities, from the ruin of agriculture at home, to the ruthless exploitation of native peoples abroad.

(d) With the failure of these lubricants to function indefinitely, the fall of world prices, which leads to depression rather than increased sales, as it should on more orthodox theories, reveals the fact demonstrated in this thesis that industry cannot recover its costs under existing finance-costing methods, except in so far as industry is becoming increasingly indebted to the banking system. This sufficiently explains the lever of "the Power of Finance."

On this analysis what is required is not neces-

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sarily an increase of credit but a method which administers credit as the money equivalent of the community's economic achievements. This is to be done by the banks if they are willing, but if not, by any credit-issuing agency such as the Treasury. That involves immediately, to make up the existing debt of goods to the public, which exist potentially but cannot be sold, an issue of credit to producers or retailers to enable them to *reduce prices* of ultimate products by a definite but considerable amount—and then to keep purchasing power continually equated with production by the same method, adjusting the reduction in price by the relation of production (capital and consumable goods) to consumption (consumable goods).

Here it is useful to give C. H. Douglas' own words :

You will remember that we ascertained that prices were too high in relation to purchasing power. It would seem at first sight that we could either issue more purchasing power or arbitrarily reduce prices, but the matter is not quite so simple as that. If, having broken the banking monopoly of credit, we simply proceeded to give everyone large overdrafts, it is fairly well understood by now that all we should do would be to create a feverish boom in production, accompanied by a spectacular rise in prices. . . . If, on the other hand, by means of a rigid government control we arbitrarily reduced prices, it is equally obvious that we should strangle production, cause widespread bankruptcy and probably arrest our sales of commodities ; but if we are in a position to say to the manufacturers and retailers, " We will assist you to sell to the public at lower prices than you can sell without our

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assistance," we produce a series of results which I think you will agree, on examination, are remarkable. In the first place we benefit the public, as individuals, by lowering prices, and thus enable them at once to get goods and services which, we agree, they demand and intend to have ; but even without going any further, it will be seen that we also benefit the trader to whom we extend this assistance, because his turnover increases, and thus his business, from every point of view, flourishes and expands. For the moment, at any rate, we solve the alleged problem of unemployment, because the immediate effect of this increased flow of business is to stimulate employment. These advantages alone are so outstanding that it would seem that we have only to be clear as to the existence of a source from which such assistance can be made, to have the necessary justification for action along these lines. We have such a source, and that source is the same source from which the banker now, for his own purposes, creates additional purchasing power through the medium of overdrafts, bills discounted, etc. <sup>1</sup>

This looks an artificial method because cost-accountancy is still based upon principles wrought out for a different economic condition. The "assistance" which Douglas demands shall be given as a right, in practice to the trader but in effect to the community, is the money equivalent of that part of the community's potential wealth which is not now actualised because its corresponding purchasing power is prematurely withdrawn. This method of correcting the evil would do so by creating money at the rate at which

<sup>1</sup> Address on *The Breakdown of the Employment System*, delivered in Newcastle under the auspices of the Commercial Staffs Association, Jan. 31st, 1923. Reprinted in *The New Age*, Feb. 26th, 1931.



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goods are produced, and withdrawing it through prices at the rate at which they are consumed or worn out, which seems the rational principle of any money system. The ownership of credit then correctly originates with the consumer and passes over to the producer in exchange for his goods. It should not originate and return to a third party, the banks, except in so far as they earn it for the service of administering the public credit, any more than it should originate with the producer, who would then have both the money and the goods. The consumer recovers his rightful place as the *raison d'être* of production. Money would then be socialised, and the upholders of this analysis consider that, this having been done, the question of further socialisation will then become principally a problem of administrative efficiency and will no longer present any claim to be regarded as essential to social justice.

By financing production in this way, which is claimed to be the natural way, the short-circuiting of money needed in the consumption market back into industry for further production is dispensed with. By distributing the community's credit through price reduction, and in no other way, the individual's income spent on ultimate goods is appreciated in value, while the investment of income in production will tend to become a super-erogatory enterprise on the part of the investor rather than a dire necessity of the producing and consuming world. So the main factor which has acted as an automatic instrument for magnifying the inequalities of monetary wealth, namely, the

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necessity of the community to become indebted to its more wealthy members, will be removed. Its removal on these lines will thus effect naturally and gradually a wider and more equitable distribution of property, which if done by the more widely canvassed political means would ruin industry outright. The community will effect its own savings and pay for its own production automatically by slight additions to the already much reduced prices.

This, it is claimed, will enormously raise the standard of living generally and obviate the ridiculous selling problem. Industry will be liberated from the apparently rapacious necessities it now labours under and will be able to function at its maximum practicable efficiency, *i.e.* absorb all the labour required to meet the real demands of consumers adequately instrumented by their ability to place orders.

In view of the fact that when the financially artificial limitation to the market is removed, enabling production to proceed up to the limits of productive capacity or consumers' demand, the real nature of the displacement of human labour by science will become apparent in the magnitude of its achievement, this school asserts the necessity of distributing some part of the communal credit to all individuals as an unconditional dividend as security for livelihood. Over and above this, the individual will then earn what he can in the usual way as payment for labour or service. The productive power of the world is now asserted to be so much less dependent upon output of human

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energy, that such productive service cannot remain the only title to consumption.

C. H. Douglas and his followers criticise all existing orthodox and redistribution economic theories as being unconsciously based upon the economics of a pre-scientific age, when the problem was predominantly one of overcoming material scarcity.

This theory and remedy have been, of course, criticised as traversing every canon of "sound finance." Such criticism should be viewed in the light of the fact that "sound finance" can only envisage such futile variations in monetary policy as deflation, inflation or stabilisation. As there is no way within its "canons" of equating purchasing power with production, it is necessary to consider an analysis which concludes that "sound finance" is not "sound economics."

We have given reasons for believing that no other diagnosis faces the double problem of purchasing-power and the achievement of a diminishing necessity for employment so fundamentally. If this one has not "soundly" solved it, it at any rate posits the problem that has to be solved.

## VII

### THE SOCIAL ISSUES

#### (a) UNEMPLOYMENT : DISASTER OR OPPORTUNITY ?

WHAT do we mean by calling Unemployment a problem ?

The Unemployment situation is ethically condemnable because it causes poverty, insecurity, despair, lack of social confidence among the unemployed—it surrounds them with an atmosphere of social indignity—it breeds cynicism, which springs from the sense that society does not require the unemployed while the spokesmen of society assert that they ought to be wanted.

Unemployment at the present time is then both a personal affront and a symptom of social confusion. A Christian judgment must distinguish between this Unemployment situation and the possible real decline in the economic demand for human energy which might be regarded as an achievement. The actual situation allows a possible social achievement to be inflicted as a penalty upon a minority of the community—and, not accepting it as an achievement, inflicts social confusion and a cumulative economic problem upon the Community. Unemployment in the present unemployment situation is twice cursed.

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It curses the Community who gives and the unemployed who have to take unemployment.

If we should decide, on religious or other grounds, that a certain proportion of the working life (say a third) must be given to working for living for the sake of moral health, then we should have to face the real nature of the modern economic process and judge its technical success as an evil. If, on the other hand, it is the unemployment situation as we know it that is, for reasons given above, a social calamity, and if the root of unemployment in technical advance, now perverted, be accepted as frankly a social achievement, how can it be changed from being doubly cursed to being twice blessed ?

In the wider sense of diminishing economic demand for human service in order to fulfil human economic demands, unemployment results from any change by which the total production (of goods and services) in the community increases faster than the total consuming power of the community.

But this relative increase may be due to two different factors determining the consuming power of the individuals in a community. In the one case the productive power of the community advances faster than the real natural demands of its members for the results of production. In that case the demands of the members will be satisfied with a diminished volume of human energy expended. This is undoubtedly one of the principal factors in the present situation, and known as "Technological Unemployment." "In

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the study of the unemployment phenomena this rapid and relentless displacement of labour by a perfection of technical processes hitherto undreamed of seems destined to take first and not third or fourth place.”<sup>1</sup> The difficulty is not to produce illustrative material of this fact but to select it, as we have attempted in Chapter III, yet a selection does not give the overpowering impression that familiarity with the scale of labour-displacing processes leaves on the mind.

Still assuming that human demands do not increase in terms of economic realities, this means that the required wealth is effected with a tremendous decrease of human energy. But we live in a money economy in which it is not always easy to distinguish between economic realities and the distributive mechanism. And so long as money claims on wealth are accorded to the majority of people roughly in proportion to their contribution to physical production either as labour, service or goods (either directly or, in the case of investment of savings, indirectly), the more non-human capacity of production we use the less of the product we would be able as a community to buy. This result has not happened according to mathematical correctness, but the general configuration of the actual economic problem makes it look as though, if we have avoided the crude effects of this dilemma, we have only done it in a pushing and pulling kind of way and that we have never yet squarely faced financially, economically or ethically the real social

<sup>1</sup> *Time and Tide*, July 1930.

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significance of the application of science to production.

The failure to make consuming power proportionate to the results of production (as distinguished from the human contribution thereto) makes an increase in the non-human factor result in a proportion of the product finding no market. The poverty of the unemployed in the face of unused productive capacity is but the most obvious form of this social perversion. A less obvious result is the enormous effort expended to increase human needs artificially in order to maintain unemployment. To-day the producer and seller are pursuing the buyer. Consumption is more and more being spoken of as an instrument for the efficient functioning of production. This is another example of the reversal of means and ends. It is significant that on the average it now costs more to sell than to produce an article, that the number of people engaged in selling goods increases while the number engaged in manufacturing them decreases. Have we ever stopped to consider the sociological significance of the rapidly growing number of people who have to inject themselves into the distributive and administrative side of industrialism in order to live, and of the increasing amount of human energy which has to be expended in persuading, bullying or intriguing the public to buy the latest products of industrial achievements? "Artificial and premature obsolescence" has become a current phrase in America, where it has been said that a man who builds a skyscraper to last more than forty

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years is an enemy of society. From the same country we have this description in caricature of the amount of research put into sales campaigns :

It is impossible to put much trust in the quaint notion of Thoreau's that if a man living in the woods makes a good enough mouse-trap the whole world would beat a path to his door to buy it. Launch a new mouse-trap in 1928 and the effort is spectacular. Surveys are undertaken to determine the presumptive sales-resistance of potential purchasers of mouse-traps of different sizes, shapes and colours. A national advertising campaign is undertaken to instruct the country in the use of bait. Pictures of villages in flames call attention to the fact that more harm is done by mice each year than was done in Belgium by the German army. Prizes are offered for the best letter on mice, the Mortal Foe of Men. Mice clubs are organised in public schools, and October 6th to 12th is announced as National Anti-Mouse Week.

At the proper moment the Mouse Trap Boys strike up at Station KDA, broadcasting ukelele programmes.

We have stressed this aspect of the economic problem because we believe it reveals the true nature of the lack of control over the policy of industrial production which, it is being increasingly felt, underlies the dilemma of unemployment and rationalisation. People are more and more demanding that industrialism shall be socially controlled. But there are two kinds of control. If a clock is out of order you can post a man by its side to adjust the hands correctly whenever he discovers the clock is either too fast or too slow. That is one sort of control. Or, you can set about adjusting the internal mechanism of the clock so that it will fulfil its true purpose, which



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is to tell the correct time. Most of the types of social control which are before the public at the present time, particularly those which it is found necessary to associate with Rationalisation, are, I maintain, of the first order in our illustration. The enormously artificial and strained effort to persuade the population of the world to buy goods and services indicates that the real, healthy and natural kind of social control that is necessary is the control exercised by the public as consumers in directing the policy of production. This can only be realised by a complete change from the situation in which there is competition to sell, to one in which there is competition to buy. The present business envisagement of the consumer as a poor tool to be sharpened up into an efficient co-operate with production is an inversion of the true social order, a reversal of economic sanity. A true order would be based upon the truth that consumption is logically prior to production, that it is more fundamentally true that we produce to live than that we consume in order that we may produce and trade. To deny this order of priority would be to deny the value of all art, science and other cultural activities which have been made possible by the release of human energy from the necessity of economic activity. It would be acquiescing in the complaint that

We go to work to earn the cash  
To buy the food to get the strength  
To go to work to earn the cash  
To buy the food to get the strength  
To go to work. . . .

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There is another unhealthy result of this artificial necessity to create needs to satisfy the present ethico-financial conditions for livelihood. One of the most glaring forms of social self-deception which it has bred is a situation in which a growing number of people who, in order to obtain a livelihood, are using their wits in inventing goods and services which the world has then to be persuaded that it needs. We commend this as an explanation of, among many other phenomena, the increasing tendency to give organised attention to the evils of "the present social system," which is so characteristic of modern life. So long as men, whose services are not required in satisfying the spontaneous needs of the community, are not credited with a share of the product, they will have to find some service for which they can persuade others to pay them. Creating jobs merely because they provide employment is socially unhealthy, and a society which imposes such a necessity and allows itself to be deceived in the matter cannot be a fit *milieu* for individual moral education.

Again, though we are suggesting that the substitution of machinery and other processes for human labour be squarely faced and welcomed, we are not thereby giving our blessing to any and every mechanical device that could be used, nor are we condoning the terrible social havoc wrought by industrialism compelled to spread itself without regard to need for the product, or the destruction of the right balance between manufacture and agriculture. We do point out that much of the

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sub-sub-division of labour and the use of any process that can increase efficiency, however detrimental to the operator or user of the product, has largely been imposed upon industry by the necessity for a ruthless cost-cutting policy owing to the exigencies of the selling problem. And the spreading of industries by an automatic growth has been the result of forces which impelled it to spread if it was to survive. Therefore many of the just grounds for criticism upon industrialism such as we find in the thought of the Mediævalists and Distributists really rest not upon the use of technique as such, but upon the dilemmas which that use has to confront in face of a chronic distributive problem.

So far we have assumed that Unemployment as an achievement is inherent in the advance of technical production, and that it creates a problem because for those with earned income employment is taken for granted as their main title to consume. So unemployment, the penalty, is now shifted on to a section of the community by the rest who are more successful in maintaining or creating work, instead of being distributed as leisure over the whole community. In so far then as the Unemployment situation is in this sense "technological," it seems that we are faced with the alternative of disowning much of our technical equipment, as the Mediævalists urge, or revising the whole policy by which we accord claims to wealth upon individuals.

But we cannot say how far we are concerned with "technological" unemployment until we

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know whether the slow rate of increase in economic demand as compared with capacity to fulfil them is due to the condition of real human demand or some artificial factor. One such artificial factor is the above-mentioned necessity to stimulate demand under the stress of a fight for employment. The main factor, however, which disguises the real condition of human demand is the inability to buy the results of production at prices at which it now pays producers to use their maximum capacity. A general increase in purchasing power would undoubtedly expand demand which is now restricted not by human desires but by the income-and-price relation, and would immediately, therefore, increase employment in a large number of trades. But owing to the technical possibilities being released which are now unused, we should have to deal with only the kind of unemployment which should be regarded as a technological achievement, and of which we would welcome the growth.

Would the conversion of human desires into effective demand up to the limit of economic capacity be a good thing? is a question often asked from a Christian point of view. Part of the answer is surely in the spectacle of penury and insecurity for millions of people. But is not the more appropriate answer that Christianity repudiates a position which allows an *economic system* to be a form of government, *i.e.* to determine what human desires should or should not be satisfied. Should it not be, in a Christian view, as efficient an organisation as possible within its own

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sphere, leaving the education of human desires to definitely educational and religious activities? Moreover, does not its inefficiency create such confusion that political, ethical and even religious issues have their real nature obscured and distorted? Should not an economic system be what T. H. Green said of legislation that "it does not exist to create the common good but to create conditions under which the common good may develop."

### (b) THE DELUSIONS OF THE SCARCITY PHILOSOPHY

#### i. *In the Ethics of Industrialism.*

Whatever may be the full extent of "the common good" its basis must be truth; and if there is a social deception resting upon a contradiction between human achievement and the theories which surround and distort it, the first condition under which the common good may develop is denied.

The paradox of "over-production" as a problem suggests that there is such a contradiction between the real economic facts and the unconscious economic philosophy of industrialism. Orthodoxy in economics, which is not confined to the politically conservative and includes many of the severest critics of the administration of economic life, seems to many to have never cognised the economic problem of an industrial and scientific world. Even where the problem is plainly stated as one of abundance, the advice which usually follows has no relation to the earlier

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admission.<sup>1</sup> The following features in current economic philosophy appear to rest (unconsciously perhaps) upon a situation in which economic scarcity was the main problem and labour the main factor in production, both of which conditions have been reversed by applied science.

There is first the continued echo that what is needed is more production, often from the same people who tell us in the same breath that the problem is, as we have seen, to get the results of production sold. This is usually accompanied by the assumption that the former level of employment (pre-war) is recoverable and salutary. At its best, it implies that production automatically creates its own purchasing power and merely asserts that something incidental has gone wrong with the working of this "axiomatic" assumption. This "something" is the world situation brought about by the War. Before examining what this means, it should be noted that this view still includes the belief that technical processes indirectly create as much labour as they save—so that the machine does not really enter into the unemployment problem! This complacency is not difficult to account for because it was possible during the first century of industrialism to find employment for those displaced by science from one productive process in another process, to supply a larger home demand both in a raised standard of living and for a growing population and in supplying an expansible world market. It is clear that for the foreign market to make up

<sup>1</sup> See e.g., The City Notes in *The Times*, July 22nd, 1931.

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for labour displaced as the result of home demand being satisfied with less human labour, it must be an export surplus. This is exactly what has been successful in evading "technological" unemployment, and it has mainly taken the form of foreign investment. We may sum up the position in the words of the Right Hon. Reginald M'Kenna: "For over two centuries English capital has been lent to other countries. Year by year England produced more than she either consumed herself or could exchange for the products of other nations, and she could not obtain a market for the surplus unless she gave the purchaser a long credit. Foreign loans and foreign issues of all kinds were taken up in England and the proceeds were spent in paying for the surplus production. British factories and workshops were kept in good employment, but it was a condition of their prosperity that a part of their output should be disposed of in this way."<sup>1</sup>

The fact that the earth is limited in size and that the world is filling up industrially seems to be continually shelved by those who expect "export trade" to be maintained on its former scale. They rationally know that it is not for imports they desire this recovery of exports but for maintaining employment. It appears to be a scarcity complex that enables them to overlook the fact that this export surplus has merely served to prevent our population from supplying their wants with less labour. Whether they consciously

<sup>1</sup> Address before the forty-eighth annual Convention of the American Bankers' Association, New York, Oct. 5th, 1922.

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think that work and trade are economic ends in themselves that is what this view implies, and it is congruous with the religious philosophy under which industrialism was inaugurated as described in Max Weber's *The Protestant Ethic and the Spirit of Capitalism*.<sup>1</sup> Upon whether we accept that philosophy or not will depend our judgment of all the official programmes from the two fiscal policies to Rationalisation. If we accept it and insist on using the most up-to-date scientific aids to production, we have to face not only the fiercest international rivalry as indicated in Ludwell Denny's *America Conquers Britain*, but the irony of the following situation :

What does this mean ? It seems to mean that if we work very hard, we can send more wealth abroad and thus acquire more capital abroad, and thus possibly receive more interest and dividends from abroad, wherewith to acquire still more capital abroad, and so on, generation after generation, without finding any way whereby we, or our children or our children's children can ever benefit greatly by our increased productivity.

According to this theory, our own standard of living must remain the same as though we had never produced all this "surplus" wealth.

The complacency with which this theory is accepted is amazing.<sup>2</sup>

### ii. *The Theory of Production and Prices.*

This philosophy of scarcity is further embodied in the assumption that the production of capital

<sup>1</sup> Allen & Unwin, 1930. See also *Work : Its Influence through the Ages*, by Adriano Tilgher. Tr. D. C. Fisher (Harrap).

<sup>2</sup> Foster and Catchings : *Profits*.



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equipment must be made and can be made by abstaining from consumption. Doubtless, in a community where each individual (or family) produces by unaided human labour only the approximate equivalent of what he consumes, then any capital equipment must be met by the abstinence of the community. But the necessity of obtaining capital equipment by that means ceases as soon as the community is able to produce on the greater scale which modern technology makes possible.

A primitive community lives by chasing wild pigs. It takes a man a week to catch a pig, and a pig will keep himself and his family for a week. There is here a complete balance between production and consumption. Supposing this community has a money economy and each man brings his pig to a central market and is given for his labour a ticket, which, on presenting to the proper authority, he can exchange for a pig. The natural balance is still maintained. One day these people discover the use of a gun and decide to make guns. Now all, or some members, must curtail their consumption of pork in order to feed those who are making guns instead of catching pigs. That is the economic basis of all saving as the necessary basis of capital production. But once the guns are made, the community's weekly requirement of pigs can be obtained in half an hour per week by a few or all the male members. The community has no longer to choose how much time-labour it can give from procuring pigs in order to make guns, upon which choice the necessity of saving is rightly based.

To make this illustration serve an earlier point, suppose further that the socially decreed condition for the distribution of pig-tickets is the expenditure of human energy at the same rate as before (in this case the energy expended in pulling triggers and walking a short distance),

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rather than the economic achievements of the community, you will have a situation in which the market is glutted with decomposing pigs and the population starving because of the ridiculously small amount of pork they are enabled to purchase.

Now modern production of capital goods, as well as those of more immediate consumption, is partaking rapidly more of the nature of "trigger action." In such a case the necessity of saving, instead of consuming, becomes less of a necessity, and, in fact, definitely harmful. It leads to the issue raised by Mr Hobson's analysis.

Moreover, it looks as though it were the overlooking of this dilemma of thrift, or production out of savings, that allows the spokesmen of the "scarcity theory" still to assume that the price factor would always re-solve the difficulty in spite of the present price situation. When faced with the simple arithmetic that the *wages*, *salaries*, and *dividends*, etc., distributed in the course of production must figure in the prices of the output, and that therefore any part of those incomes which are not spent but re-invested for further production must cause some of the original output to remain unsold, they continue to say that prices will drop by the law of supply and demand and enable the total spendable income to purchase the whole output. Now, the fact that the present fall in prices does not result in increased sales but in the depression of industry should lead us to question this analysis and ask whether it is not the saving theory that is false, as suggested above.

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### iii. *In Monetary Theory and Practice.*

It is significant that the fall in world prices has been going on since the deliberate policy of deflation in 1921, which was intended to restore the pre-war monetary system. In so far as it has succeeded in doing so, the results provide a judgment on that system in view of the increased and not diminished world productive capacity since the War. To say that it worked well before the War would be a rash statement, especially since the growing volume of evidence that it was precisely the failure of Germany to deal with her rapid industrialisation on current lines that made her seek the expansion which, for her, could only be obtained by conquest. Moreover, it does not follow that because a defect has been counteracted for a certain length of time it can be so counteracted indefinitely. It has been pointed out that if beginning with a grain of corn the number of grains is doubled on each successive square of a chess-board, there would be at half the board barely sufficient to give London one meal; but at the sixty-fourth square there would be more wheat than could be consumed by the whole human race throughout the world of recorded history. The criticism of monetary policy, that it has only enabled industrialism to survive so long by an increase of indebtedness to financial institution, is not invalidated by pointing to its having gone on with only minor crises for a century. The second half of a geometrical progression of debt has a very different effect than the first.

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But the issue raised by the "Mysterious Dislocation" is whether the War really caused the dislocation of "World Conditions" or was a crisis in it. It is now no longer seriously held that the War left the world poorer, but it is often supposed that the economics of the War were of a different order and so upset the economics of peace time. It has now been shown that the economic processes of the War were not of a different order. It produced only a speeding up of consumption, a condition which the industrial world is now sighing for. Goods were destroyed and plant worn out at a slightly faster rate than they would have been in normal times. And actually this country and others were left with greater productive capacity than before. The crisis also accelerated the tendency of the world to fill up industrially, and dislocated the channels along which international trade had found some modification of industry's economic dilemma.

The question is whether unemployment is really *due* to the decline in exports resulting from trade dislocation following on the War, or whether it is due to an inherent selling problem of industrialism which was caused by expanding exports, a condition which was bound to end some time, and which the War tried for some nations to extend, but in fact brought nearer to its natural limit. It is time that economists were severely challenged to explain what they mean by "World Conditions," which are supposed to *determine* the economic relations between

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nations. What is this abstraction "the world" apart from the nations which compose it?

The main point, however, is that in order to effect this speeding up of consumption in war-time, the rules of the financial game had to be broken. The fact that the War demanded what is now felt to be a necessary and normal condition of economic equilibrium, *i.e.* an accelerated rate of consumption, should lead to an examination of the "rules of finance," which had to be broken in the way of inflation, though that may clearly be a wrong way of altering them. Granted, as the economists say, that this was bad economics, but here was the necessity to use our productive capacity up to the hilt. If this was the wrong way, what was the right one? And what do they mean by saying that it created an "artificial prosperity"? Does not this reveal the inadequacy of the "rules" of the world's monetary mechanism.

Evidence can be produced to show that the financing of the War was done predominantly by the creation of credit. Apart from the American debt the amount of War Loan in this country was about £7000 millions. The public possessed in 1913 only £1200 millions. That the former amount had to be created to use our productive capacity is significant. Though no amount of lending will turn £1200 millions into £7000 millions, the whole psychology of the business was such as to suggest that the public subscribed the amount of War Loan. The difference between £7000 millions and the small part of the £1200

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millions lent by the public was that amount of the community's real credit (its capacity to produce) which it had never received as money, and which under the credit and inflation system was now only lent to the community by its financial creditors as a repayable debt.

It should be considered whether this process of allowing to the public as a "loan" what should be granted it as a right is not behind the defect in cost-price accounting of normal industrial processes, which C. H. Douglas claims to have analysed. It looks as if credit were being administered as if it were the same as a "loan out of savings," as if it were a commodity of which there is a physical limit, notwithstanding the pronouncements to the contrary which economists and financiers make in their more disinterested moments. The complacency with which the see-saw of inflation and deflation or stabilisation between them is accepted as the only area in which monetary policy can move, seems again based upon a gold-property-scarcity conception of money.

### (c) THE SOCIOLOGICAL PROBLEM

The facts we have adduced lead us to see the present world crisis, not so much as a purely economic catastrophe, but rather as a problem of practical sociology. We are faced, not with questions concerning the ways in which industry and the economic system are succeeding or failing in their objectives, but with the social worth

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of those objectives themselves. This is the point at which a religious view of life has something to say. When we are confronted with what appear *prima facie* to be conflicting aims in industrial society, we are challenged as Christians to pronounce upon the relative importance and priority of those aims, and to demand that those to which we give the priority in spiritual and moral value shall also have the priority in claiming the subservience of the others. "There are, for a Christian, no insoluble social problems, there are only problems badly stated."<sup>1</sup> Unemployment is one of these.

Here, in the case of what we call the unemployment problem, we find most of the secular panaceas devoted to the task of recovering employment—whether it be the programme of Rationalisation for the purpose of increasing our export trade, Protection in order to keep our work-people employed, the bankers' injunction to produce more, or the liberal and labour work-schemes.

The problem looks so bewildering to the modern world because society has never asked the kind of questions which Christianity should make it ask and answer: "Why do we want people employed"?

If there is one clear conclusion to be drawn from the facts of the situation and the vicious circles involved in most of the remedies offered, it is that economically speaking more employment than we

<sup>1</sup> Rev. P. E. T. Widdrington in speech to the *League of Kingdom of God* meeting, Newcastle, 1930.

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now have is *not* required in order to satisfy our present standard of living or even one considerably higher. With all their unemployed, Britain, the United States, Germany, Australia and other countries are achieving a certain standard of living, and with easily increased productive efficiency this would be raised with even a diminished amount of labour. It has been pointed out that among the employed population the standard of living is rising—even though that section is decreasing in numbers.<sup>1</sup> If there were no selling problem, and all that the employed population could produce were easily marketable at home or in exchange for foreign products, the dilemma would be simple and direct; to employ the unemployed would mean that we could raise our standard of living by producing more, or reduce the hours of employment for the same standard. But there *is* a selling problem. With all their unemployed these countries have on the one hand what is called “over-production,” or “under-consumption,” and on the other widespread unused capacity for further production. It is only the selling problem, of which we have outlined explanations in Chapter VI, which masks the fact that in terms of economic possibilities a higher standard of living would be attained with even less employment than we are now using. It is the failure to face in its earlier stages this fact of the decreasing demand for human energy in economic activity that is the main

<sup>1</sup> Speeches to the Economic Section of the British Association, 1929.



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factor which has brought the world to its present *impasse*.

When the situation is looked at as a whole it is clear to us that there is a conflicting demand made upon industry. It is expected to perform its own essential function of supplying economic needs with the greatest possible efficiency with the most up-to-date scientific facilities available, and at the same time to continue providing people with employment on the same scale. The better known remedies now offered, from Rationalisation to Public Works, are efforts intended to increase employment. Employment is ostensibly offered to meet economic needs, upon the unconscious assumption of the scarcity economy to which reference has already been made, but on analysis it proves to be offered really to keep people at work. A system which succeeded in employing the whole community at eight hours a day, with present technical developments, would be a bad and oppressive system. It is trying to succeed in doing this, and thanks to the fact that it is contrary to true economics it is not succeeding, for if it did succeed we should have such an increase in the present waste, inefficiency, economic rapacity, and international rivalry as would be even more tragic than ludicrous.

The main factors in this unconscious scarcity "complex" which we have described, namely, the ethics of work, the theory of production and prices, and our monetary principles and policy, are not the cause of unemployment. They are on the contrary the means by which society has

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managed to keep people at work in spite of the fact that the machine and applied science have tremendously reduced the need of human energy in production and distribution. This has been implemented largely by the theory of foreign trade. Men have been so long persuaded that technical processes indirectly provided as much or more employment than they saved, because the expanding world market for industrial production made this possible for upwards of a century, that this assumption is still clung to when the condition of its success is steadily ceasing to operate. First, the export of industrial output ceased to provide the "favourable" balance of trade, and for the last sixty years this balance has increasingly been effected by means of foreign investment, which in terms of realities is the export of capital equipment. The interest on these investments are increasingly re-invested and debts accumulate which can never be redeemed, because the only way one country can pay another is either in gold, goods, or services. Gold has become impossible as the universal means of payment, and owing to industrialism demanding employment rather than goods and services, the only means by which a debtor country can meet its obligations except by fresh borrowing is made impossible of fulfilment.

Most of the commercial strains between nations rest upon this endeavour to maintain a scale of human employment which applied science has rendered unnecessary. International debts and reparation payments could be settled in a reason-

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able time if creditor countries were willing to receive goods and services in payment. But the nations of the world are in the strange position of having to account goods and services received as "un-favourable" items. The only reason for this is that they want "employment," and so seek to export as much and import as little as possible. We can only here record the conviction that such demands will easily precipitate another war within a decade, a conviction strengthened by the already strained relations between industrial states.

We have already indicated our awareness that there is a vast unsatisfied need both at home and abroad for much of the product of our manufacturing and agricultural industries, and that there is, therefore, a certain kind of expansible market. But we are convinced that this need cannot be met by any readjustments within the limits imposed by the present method of demanding that communities produce more in order that they may distribute what they already could produce but cannot sell. The present situation, we have seen, is largely due to the hypertrophy of productive equipment which has come about in order to stave off the selling problem. Industrialism has expended irrationally in order that its dilemmas might be eased. We are living in an over-industrialised and over-trading world, because we insist that industry do contradictory things: that it be at once efficient and also continue to provide as much work as its efficiency saves.

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It is not difficult to see how this dilemma has arisen and how little the human race is willing to face it. During the greater part of human history the main economic problem has been production, how to wring from the earth a hardly won subsistence. Work for subsistence has been throughout human history not only a moral discipline but a social duty. When each man, or his family, consumed as much as he produced, idleness was social treachery and robbery. "If a man will not work, neither shall he eat." To-day, with scientific equipment, each producer produces a large multiple of which he consumes. To see the tremendous significance of the industrial age, we need only contemplate the fact that to-day it is not the idle person but the man who need not work, and yet insists on finding or making a job in the economic world, that is robbing his neighbour of employment — and means of livelihood.

We are not advocating idleness, but we are urging upon Christian people the necessity for getting free from the obsession that the Unemployment Problem is a problem of finding work. Along that way lies failure and war. The Church's task is twofold. *Firstly*, to insist in the name of truth and justice that the world find a way by which the demands of human beings for goods and services be the deciding factor in the policy of production, and that it adjust its theory of work and money to this end. We have in this book sought to provide clues for the understanding of this problem which we regard, not by any

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means as the whole social problem, but as the basic change which alone will enable us to see the other problems of social justice in their true light.

*Secondly*, the Church's peculiar task in this matter is to equip herself to provide the guidance required when the clumsy social discipline, hitherto supplied by the necessity of working on the scale industrialism has demanded, must give place to a much greater measure of spontaneous and freely-given social and economic activity.

There are reasons for believing that the traditional Christian doctrines of God and man do not support the view that a less toil-determined society will prove the disruptive thing that the false philosophy of the last two centuries has led us to imagine. On the contrary, it is becoming evident that this philosophy is not in accordance with the fundamental nature of man and that its continued embodiment in social life is inimical to a stable civilisation. The working out of these more theological aspects of the economic problem remains to be undertaken.<sup>1</sup>

The dilemma before civilisation is not merely one of providing a tolerable world or an intolerable one. It is a dilemma which offers us a choice between using the achievements of applied science which should make it easy and not hard to live, or else a world conflict between communities who are not allowed to discard the ethico-financial

<sup>1</sup> A contemporary attempt to outline a social philosophy for the Church at the present day is made in a forthcoming work by Maurice B. Reckitt.

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assumptions which belong to a condition of scarcity and unremitting toil. We are confronted with what is for society, as well as for the individual, one of its hardest spiritual tasks, that of giving up our difficulties.

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