

CREDIT CONTROL

(X)

The Path of
Industrial Revival

BY

FREDERICK THORESBY

(Barrister-at-Law)

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Credit Control

The Path of Industrial Revival

In 1920, a few private gentlemen, by the exercise of a power, mightier than parliaments yet scarcely appreciated and little understood, were able to bring financial distress to tens of thousands of manufacturers and traders, and to convert a million and a half of productive workers into an army of merely burdensome consumers. What this power is and how it is wielded are examined and explained, and a suggestion is made for its control and use in the national interests by the exercise of existing constitutional means. The information in this book is of vital importance to every manufacturer and trade union official, and above all to every citizen.

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PREFACE.

EXTRACTS FROM THE CHAIRMAN'S (THE
RIGHT HON. REGINALD McKENNA)
ADDRESS TO THE MIDLAND BANK
LTD., ON JANUARY 28, 1927.

"THE similarity of trade conditions in England and America in the first three years after the Armistice, contrasted with the subsequent dissimilarity, points to the occurrence of some vital change in 1921 capable of producing or at any rate markedly contributing to these different results. Monetary conditions exercise such an all-pervading influence that in investigating a matter of this kind we are forced to turn our attention to them; and as we find that from 1921 onwards there was a wide divergence between English and American monetary policy, we have in this fact at least a partial explanation of the phenomenon."

* * * *

"When now we compare English and American conditions we find that it is precisely in the movements of credit that the basic dissimilarity shows itself. Since the autumn of 1921 there has been a

great expansion in bank deposits in the United States. Using the latest available figures for purposes of comparison, it will be found that the average total deposits of the reporting member banks of the Federal Reserve system rose from £2,860 millions for the twelve months ending November, 1922, to £3,751 millions for 1926, an addition of no less than £891 millions. Taking similar average figures for this country, we find that over the same period the total deposits of the ten London clearing banks fell from £1,783 millions to £1,661 millions, a decline of £122 millions. Thus while there was an increase of £891 millions in the United States, there was a decrease of £122 millions in this country."

* * * * *

"It is clear that a growing population and expanding production call for a larger volume of bank credit; and it must be equally clear that if the expansion of credit is not haphazard, but is capable of definite control and properly within the domain of policy, it is wise to ensure that the additional accommodation will be forthcoming. Those who think that any increase in the volume of money must be stigmatized as inflation will doubtless be alarmed by this growth of credit in the United States; but if the supply of new money does no more than keep pace with the increase in production, there is in fact no inflation whatever. An enlargement of credit, which in one set of conditions may be inflation, in another is an indispensable accompaniment of trade expansions."

“It appears then that fluctuations in the quantity of money cannot under present conditions be accounted for by anything done independently either by the public or the Government. We must therefore look to action by the banks, and particularly the Bank of England as the central institution, for the cause of these movements.”

* * * *

“We have now reached two vital conclusions : first, that variations in the quantity of money are due to variations in the total of bank cash ; and second, that the total of bank cash is determined, except to an immaterial extent, solely by the action of the Bank of England. Indirectly, therefore, the Bank of England is in practice the controller of the volume of money.”

* * * *

“It is not surprising, therefore, in view of the conditions of our trade in recent years, that Bank of England policy has for some time been a matter of controversy.”

* * * *

“For close upon seven years we have had an army of unemployed in this country, never less than 1,000,000, at one time over 2,000,000, and at present nearly 1,500,000. Every year the normal growth of population adds roughly 200,000 to the number of our people capable of productive labour of one kind or another. In order fully to occupy our people an immediate increase of banking credit, that is of money, is indispensable for carrying the larger volume of commodities which the unemployed and

the new recruits to labour will produce. To check the growth of credit when the population is steadily increasing and vast numbers of men and women are out of employment is obviously to cut off all hope of trade expansion unless prices are continuously lowered. But we all know what falling prices mean to trade in these conditions. They spell stagnation, from which the sole means of recovery is a reduction in wages. It may be true that with falling prices the reduction would be in nominal more than in real wages, but I think our experience has taught us sufficiently the difficulty of effecting any reduction at all, and that what actually ensues when the volume of money decreases is long-continued trade depression. Stationary, or even insufficiently expanding money supplies, with a growing population struggling to find employment, represent in truth a condition of deflation.

* * * * *

“We have been working on the gold standard for nearly two years, and except for the rigidity of the Bank of England system, there is now nothing to prevent the same response being given to growing trade demands in this country as has been given in America.”

CHAPTER I
THE PROBLEM

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THE PROBLEM.

IN this little volume there is no attempt to preach some special kind of social reform or to advocate any particular political faith. An endeavour, however, is made to penetrate the anomalies which result from the popular confusion as to the relationship between national industry and national finance which confront us in all directions. This endeavour has been made, as far as possible, free from any prejudice through traditional teaching and the gradually built up conclusions which, if accepted blindly, as they largely are, seem to justify some extraordinary contradictions.

We can, of course, negligently and unthinkingly accept bankruptcy, bad trade, unemployment, and the production of useless citizens as inevitable, but as these do not result from the operation of any known Divine Law, but are obviously the result of our business methods, we can assume they are man-made and so can be man-remedied. This remedy, we believe, can be applied without adopting means which, based on ideals requiring perfect human nature for their fulfilment, would, lacking this essential condition, merely create greater chaos than that which we are now compelled to live amongst.

If any practical remedy is possible it is likely to be one which is capable of using and becoming part of the existing social and industrial organizations, so that whilst its application is a recognition of a definite and existing evil, its remedial nature will be gradual in its disturbance of existing conditions, with the result that in removing injustices it will not generate others of equal size.

A single panacea for national difficulties is improbable, and it is unlikely that however deeply we probe we shall find any one cause as the sole cause of our troubles ; in fact, those who advocate a single remedy as a universal solvent of our difficulties declare themselves to be dreamers and useless as guides. It will, however, be obvious that some of the causes of our national distress are more important than others.

Amongst these more important causes probably everybody will agree that a power which, although operating silently, enabled a few private gentlemen in 1920, without any national restraint or responsibility, to bring bankruptcy to hundreds of manufacturers, financial difficulties to thousands more, and misery to more than 1,000,000 British families, can only be regarded as exceptionally important, for it actually affects our national well-being.

That this power actually exists there is no doubt, for its operations are always affecting us. Its name is High Finance, its medium the control of credit, and those who wield this mighty power are principally the few private gentlemen who constitute the Court of Governors of the Bank of England, a

limited liability company with shareholders to whom dividends are paid out of trading profits.

In 1920 it was mainly the decision of these gentlemen who, apparently, never even realized the need to consult the Home Trade or Export Trade Interests of the British nation, which brought years of financial difficulties to thousands of manufacturers from which they are still suffering, and turned 1,500,000 of our operatives out of our workshops into the street, converting them from producers and a national asset into mere consumers and a national burden.

In the following pages we examine and explain what this tremendous power is which exceeds in its daily effects the power of parliaments, who wield it, and for what purpose. Finally, we suggest a means by which this greatest of all powers can be controlled and gradually directed so as to bring back prosperity to this nation.

The promises of politicians are a byeword, yet there is no doubt that the efforts of every party, whether Conservative, Liberal or Labour, to smooth out some of the injustices of our national life, social organization and wealth distribution, are, even when sincere, hamstrung at birth by economic incapacity. In any event, what is evident is that no party, however great its majority, can introduce remedial legislation without a trade revival and the recovery of national prosperity.

The understanding of one of the principal causes of our difficulties is therefore a matter of national importance. Without a very considerable improve-

ment in our trading operations it will be impossible to reconvert even half a million of our unemployed into producers once more. To do this trade must be sufficiently good to justify the expenditure of energy in enterprise and give the necessary security to the employment of capital behind such enterprise. Only by a trade recovery can we turn our army of unemployed into producers once more, because the fewer unemployed the greater will be our home-trade consumption with a higher average wage level. Until our manufacturers have a greater sense of security and courageous and intelligent enterprise is once more justified and encouraged our unemployed cannot be absorbed, nor our home trade be satisfactory, for it is the periodical circulation week by week of an adequate amount of workers' wages which mainly keeps our home trade prosperous.

So long as we have unemployment side by side with the need to solve industrial problems, we shall remain impotent in our endeavours to solve the most important problem of all, which is how to build up a healthy rising generation in body, soul, mind and spirit. If we as a nation are to keep in the forefront of the world's civilizations and fulfil our destiny, which hitherto we have taken for granted, we must concern ourselves with the quality of our next generation, and this quality will mainly depend upon the children of the millions of our working and middle classes who are now in our midst, for it is these children now growing up who will determine the standing and influence of Great Britain amongst the nations of the world.

If we concentrate upon what happened in 1920 and try and find out the reason why we were then suddenly plunged into national misery by the action of a few private gentlemen who controlled the granting or the restricting of the credit daily created by the nation, we shall probably discover the secret why cheap imports, instead of the development of our export trade, have been the main concern of Chancellors of the Exchequer for many years, and why the steadily increased *purchasing* power of money during the past eight years has been accompanied by unemployment, bad trade, lessening exports, and the many difficulties which the great majority of employers and manufacturers have had to face during this period.

We believe that any considerable improvement in our national trade can only take place if Chancellors of the Exchequer give their main concern to developing our export trade in overseas markets, for we shall show that the home trade can never be expanded sufficiently to employ all our workers so long as we grow less than the food we consume. This food, as well as the raw materials, which we must import to turn into manufactured goods, merely to exist, must be paid for by exports. And somehow we must so control the rate of international exchange of the pound sterling in the terms of the currency of our principal customers all over the world that they can afford to buy our goods to a much larger extent than they do now.

Cheap imports are necessary so long as wages are low, and the largest possible *purchasing* power of

the pound sterling is the goal of those controlling our national finances, but if our export trade were flourishing so that nearly all wanting work could find employment, imports, cheap or dear, would lose their significance and automatically adjust themselves to our needs.

With the recovery of our export trade, which would instantly bring about a considerable reduction in the number of our unemployed workers, our home trade would automatically expand and help still further to reduce the number seeking work, but neither our financiers nor any Government which has been in power for very many years has ever thought it incumbent upon them to try and find out the causes which lessen our selling capacity in market after market all over the world. If once the reason became clear why our export trade languishes, the need to remove the cause would become more and more insistent.

Putting the matter in another way, if the ever cheapening of imports and the lowering of our workers' wages were the solution of our difficulties, why is it that not only insufficiency amongst the workers, but never-ending worry and anxiety to make both ends meet amongst the majority of our manufacturers in almost every trade in this country, are as great or greater to-day as they have ever been, for both wages and prices have both been reduced to such a degree that there is no comparison between those ruling in 1920 and to-day?

If it were merely a question of trying to find out the secret of a particular law of Nature, which has at last been recognized as operating, instead of the

cause which determines our national well-being or misery, some of the finest scientific brains in this country would be concentrated upon wresting this secret from the heart of our Great Mother. And they would succeed, because they would tackle the problem free from prejudice or personal interest as to what the secret might reveal. When, however, it is a question of finding out the secret of how to develop and expand our export trade, the foundation of our comfort, prosperity and influence, no one attempts it, for if it were to contradict accepted shibboleths, or affect the interest of any particular class, the secret, if revealed, would be rejected as a truth. Yet if we do not discover this secret the misery of millions must continue, and slowly but inevitably the very existence of Great Britain will be undermined and overthrown.

Nevertheless, the law of national well-being, the law which, in being disobeyed, prevents distribution when there is so-called over-production of necessities which everybody wants and cannot buy, and the law which, in ignoring, condemns millions of our children to live under conditions which make them of no particular value to us as future citizens, will be made to reveal its secret, for nationally we have so far shown no sign of a tendency to suicidal mania, in fact the Great War proved us to be very much alive, sane and with sufficient will to conquer.

If in the following pages we are able to help somewhat in making plain the issue at stake, and in indicating the law which is being ignored, transgressed and misunderstood, we shall have succeeded in our aim.

CHAPTER II

THE HOME TRADE: ITS LIMITATIONS

*CHAPTER II.***THE HOME TRADE: ITS LIMITATIONS.**

To what extent can our home trade contribute towards helping to solve our unemployment, low wage and other industrial and social difficulties? Unfortunately very little if our export trade is languishing. This pessimistic conclusion is due to the fact that our position amongst the nations is unique, for we are practically alone in all the world in that whilst we have during the past 150 years developed our national genius for manufacturing to a very high degree, we have at the same time permitted our agriculture to decline to such an extent that we do not grow sufficient food to prevent even half our people from starving.

Because we are unable to feed at least 20,000,000 of our people, we must import food to keep them alive. But if daily we have to import say 80,000,000 meals, it is necessary to liquidate this huge food bill, and so we must manufacture goods, not to sell to our own people, but to export in order to pay for the food we import.

In addition we must also export huge quantities of manufactured goods to pay for the huge quantities of all kinds of raw material we must also import so

that we can use our skill, acquired over generations, in converting raw material into manufactured goods.

It is obvious, therefore, that the difficulties in the way of making our home trade the servant of our industrial necessities are very great, nay insuperable, for not only do we grow less than half our food, but we are also dependent upon the world for the greater proportion of the raw materials we require.

We are thus caught in a circle of apparent viciousness of our own fashioning, partly through the lust of greed of our manufacturing forebears, but also partly through a greater natural aptitude for technical proficiency and mechanical ability than ever before expressed by any people in the history of the world.

It is, however, no use merely deploring or regretting this state of things. Provided we can always depend upon importing sufficient food, we might well be proud of our peculiar national manufacturing skill, for there is no doubt that it is a higher expression of human effort to create wealth through our own natural ability than laboriously to wait upon and nurse Mother Earth and leave her, out of her fruitfulness, to do the creation for us. A mechanic is obviously far more efficient and much more awake mentally than a farm labourer.

But should we not try and make ourselves once more independent of the world for all our food? If we could do so we should enable our home market to reabsorb our unemployed by once more being able to exchange within our own shores our industrial products for our agricultural produce. A

few fairly well-known thinkers and writers on industrial and social problems say we can. Unfortunately, their logic and the actual facts do not coincide.

If it were merely a matter of measuring up all the land available in these islands for growing foodstuffs, and then calculating so many bushels per acre, they would be right in their contentions and deductions and our difficulties would almost automatically disappear. If, however, the whole of their argument is based upon a false premise, its logic is of no avail and we are still left with all our troubles to deal with.

The fact which overtops all others, and which must always be kept in sight, is that daily we are actually importing 80,000,000 meals, together with huge quantities of raw material which by means of our skill we turn into manufactured articles and then export to pay for the imported food and raw materials. No argument which conveniently ignores this fundamental fact and all that it involves can be of practical use.

No beautifully conceived theory, however comforting, can destroy these actualities, for if these advocates have no magician's wand with which, in the twinkling of an eye, they can turn industrial workers into agricultural labourers; provide dwellings for them to live in; manure, plough, harrow and seed millions of acres; distribute all the machinery and plant which would be required; erect a tariff wall against the import of all foodstuffs, so as to make the production of the food we require

economically possible ; and, last but not least, keep contented with their lot our new but forcibly conscripted army of agricultural workers living in small communities dotted all over the land, the claim that we can and therefore should grow the food we require is but a mockery of our unhappy lot.

Even if, by developing our agriculture, we could reduce our import of foodstuffs by 50 per cent. (which, by the way, would not be sufficient to solve half our present problems), we should immediately create even greater industrial distress, for we should dislocate the whole of our manufacturing processes now engaged in making the goods we sell abroad to pay for the food and raw materials we import. The goods we now largely manufacture would certainly not be required by our newly-created army of agricultural workers, yet in order to justify their work or their produce we should have prevented the world from paying us with their foodstuffs for the goods we could make but then could not sell.

At the same time we should immediately destroy our world-wide carrying trade, bringing instant bankruptcy to the majority of our shipping companies. Even if it were possible by a mighty national effort, which our terrible necessities during the war proved was not practicable, to increase our food production by only 50 per cent., we dare only do this gradually and by spreading it over many years, or we should be faced with national bankruptcy and industrial unemployment to a greater extent than ever yet experienced.

Alas, growing our own food is not the way of

national salvation, except for a few arm-chair theorists. We have created, if you like, a fateful circle of exports and imports, but unless we are willing to disturb violently our world-wide import and export trade, gradually built up and organized over generations, and risk national extinction for the gratification of amateur land measurers, we must deal with conditions as they exist, and find our remedy by improving and taking fuller advantage of the world-wide trading operations our national genius has created.

Out of all the nations of the world we are the only one which **MUST** solve our industrial problems or perish, if only because we are the only one which could not feed itself if it tried. Somehow or other we must find a plan under which capital, management and labour can co-operate, or else ever-increasing misery, suffering and disaster will be our lot, but when we do find a solution of our industrial difficulties, as we must and shall, we will have found the solution for the world.

Before leaving the consideration of the possibilities of the home market to help us, there are two other suggestions for relief which have been put forward and are worthy of attention.

One is to encourage saving by increasing the sale of more or less everything by using the temptation of the instalment system which has shown such an enormous growth in the U.S.A. If people, by this means, can be induced to buy more clothes, boots, household necessities, and even food, as well as motor cars, houses, books, furniture, baby car-

riages, gramophones and wireless sets, which they have been buying upon the instalment plan for years past, it follows that more people must be employed to make the extra quantity of goods required. It also follows that if people enter into commitments for weekly, fortnightly or monthly payments, they will have less money to spend in forms of indulgence which benefit very few in proportion to the amount expended. With the very low wages, which are now the rule, the degree to which the home market can be benefited or expanded by this means must unfortunately be limited.

The other is a very ill-digested scheme to put into circulation, if possible in the form of wages, a considerable amount of credit, the figure mentioned being £500,000,000, in order to increase the purchasing power of the community in the home market. This would of course be very effective temporarily, for so long as the amount remained in circulation the home market would be in a very flourishing condition, but we are not told how this amount is first to be put into circulation as wages, nor, secondly, how it is to be kept in circulation; for wages when once spent always disappear and do not return as wages except in return for further productive effort. The idea behind the suggestion is sound enough, for it recognizes the need for a larger amount of credit in circulation, but if the idea is merely to print currency notes and distribute them, however ingeniously, such a remedy, if only in the threat of possible repetition, would so

disturb our financial basis that it would only make conditions worse.

In the next chapter we deal with our export trade, the developing of which alone promises any permanent improvement in our conditions. The proportion of the amount of food we grow at home, and all the other things we consume nationally, determines the extent to which the home trade can be developed to help us solve industrial problems, so that a lack of any of these things for everybody roughly proclaims the extent to which our home trade possibilities fail, and the degree to which the volume of our export trade is below what it ought to be.

CHAPTER III

**EXPORTS: THE REAL BASIS OF OUR
PROSPERITY**

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THE fundamental difference between Great Britain and say the United States of America or Germany, is that the latter countries mainly export to pay for the import of raw materials and luxuries, none of which is necessary to their very existence, whereas we are compelled to export enormous quantities of manufactured goods, not only to pay for raw materials and luxuries, but for the food which is the sole means of preventing at least half our total population from starving.

This is why we were within an ace of being beaten into submission by the German submarine menace in the spring of 1917 through the destruction of ships bringing food to these islands.

This is also why, in any talk of disarmament with the U.S.A. and other countries, we must as against the world maintain a sufficient navy, not as an instrument of war, as in the case of other nations, but solely to enable us to protect and convoy ships bringing food to these shores. No other country is similarly situated, for no other

nation in existence is dependent upon the import of essential foodstuffs to keep alive even one-tenth, let alone more than one-half, of all its peoples.

Therefore, it is not an exaggeration to say that the protection, maintenance and development of our export trade is the first and the last really imperative necessity of Great Britain.

In spite of this apparently obvious necessity, not a single one of our political parties nor the financial interests which control our national credit seem to realize the significance of our exports. On the other hand, they are always talking about the benefits of cheap imports, and very active in devising means for cheapening imports still further. Yet the only benefit which results from cheap imports is to increase the purchasing power of money, whilst the disadvantages are great and even terrible. One of the greatest of these is that by increasing the purchasing power of our money in the world markets we cheapen imports ever more and more, so dislocating home production by creating a continuous but wholly unnecessary artificial competition from imported goods of ever greater variety. This dislocation, involving ever-recurring dismissal of workers first in one trade and then in another, does more than anything else to cripple the home market, for its healthy condition depends more upon the amount of weekly wages in circulation than upon any other factor.

Making money buy ever more and more is good up to a point and, of course, benefits those with permanently fixed incomes, like Government servants,

but the chief advantage is reaped by our banking and financial interests. When, however, any increase in the purchasing power of the pound sterling can only be accomplished by restricting credit, the life blood of our industries, automatically involving at the same time the cheapening and consequently increasing the volume of imports, many of our own manufacturers find it more and more difficult, and in the end impossible, to go on supplying the goods we want in the home market, and which they are organized to make, merely because they cannot compete with the price the imported goods are finally sold at. Again, by unnecessarily cheapening money and so unnecessarily increasing the quantity of goods imported into this country, we only add to our difficulties by having to export more goods than would otherwise be required in order to pay for these unnecessary imports. Truly have those controlling our credit power created a vicious circle from which we must escape or perish, for we cannot emphasize too often that imports can only be kept cheap by decreasing the purchasing power of the moneys of other countries in exchange for our own goods, so making it increasingly difficult for other countries to buy our goods.

We must, however, realize that even if we did everything possible to reduce our imports to the minimum, this minimum would still involve an export trade of such a size that it would still remain the bed-rock upon which any national prosperity must be built.

The real significance of our export trade ought surely to be obvious to anyone who aspires to be called a British statesman, yet what party has ever made the development of our export trade a principal plank in its so-called national programme?

If we do not export we cannot import, and if we do not import we starve. This circle of events cannot be avoided. Let us therefore try and bring out, and to some extent examine and understand, the principal facts pertinent to our export trade when it means so much to our national well-being.

Firstly then, it is necessary to realize that a large proportion of our export trade consists in the export of goods deliberately produced to meet the tastes of foreign customers. If we did not export them we should not produce them, for we could not consume them ourselves.

Again, all our staple industries, like our shipyards at Belfast and on the Tyne, the Tees, the Mersey, the Thames, &c., our Lancashire cotton mills, our Yorkshire wool mills, our Sheffield, Birmingham and Midland steel and iron works and engineering workshops, our coal mines, especially those of Durham, South-west Lancashire and South Wales, and our London discount houses, largely depend upon our export trade to keep them in being, and are organized to supply hundreds of millions of pounds worth of goods and services beyond the permitted and even possible consuming capacity of our home market. Consequently we mine and manufacture hundreds of millions of pounds worth of goods solely to pay for the hundreds of millions of

pounds worth of food, raw materials, and luxuries we must or do import.

Again, as our export trade consists of the enormous total of £800,000,000 per annum, it is obvious the control of such a huge business must be intricate in its ramifications. For instance, how do we find customers all over the world to purchase goods represented by quite three-fourths of this total? To do this our manufacturers have to send representatives with samples of their goods to every corner of the earth in order to tempt people to buy, so that they may be able to make the goods they are organized to manufacture, and incidentally earn the money to pay wages for their workpeople and profits for themselves.

It would of course be absurd to suggest that even the majority of our manufacturers and exporters carry on their operations as conscious agents in our live or die need to maintain our world-wide export trade. They are blind participators in a blind system which has grown up anyhow in the course of generations of more or less blindly directed enterprise and skill. The past and still existing ignorance of the meaning to us as a nation of our export trade only emphasizes the need, when we have to face ever-increasing competition in every one of the world markets, that if we do not find out how to maintain our export trade we perish.

The justification for at least half of the total output of all our mills, mines, factories, workshops and laboratories is to produce goods to pay for our imports, but our present ignorance through past

success in the absence of serious competition does explain to some extent the strange indifference on the part of our manufacturers, financiers and so-called statesmen to the real significance of what our export trade means to the welfare of the nation, and why we do not realize that any lessening in our exports is immediately followed by bad trade at home with terrible unemployment.

A few illustrations of how we exchange our exports for food, raw materials and luxuries, like tobacco, &c., so as to make it possible for so many millions of our people to be fed and employed, will help us the better to visualize the involved nature of our huge world-wide trade and how small a part the actual making of the goods occupies in the whole process of exchanging exports for imports.

As might perhaps be expected, the people from whom we buy a large part of our food do not want and therefore do not directly exchange such food for our manufactured goods.

Germany, for instance, from whom we buy every year many millions of pounds worth of goods, like sugar, toys, electrical plant and various mechanical contrivances, does not want our manufactured goods to an equal value, but she does want raw materials from our self-governing colonies in order to carry on her own manufactures. We therefore pay Germany for part of the goods she sends us by exporting our manufactured goods to the colonies, who in their turn pay us by sending cargoes of raw materials to Germany.

Again, from the Argentine we import huge

quantities of meat, but our imports into that country fall short by millions in value as compared with what we purchase from her. As the Argentinas are mainly Spaniards and Portuguese who want goods from Spain and Portugal, the balance we owe is paid by sending millions of pounds worth of our manufactured goods to Spain and Portugal, who pay us by sending millions of pounds worth of their goods to the Argentine, who pay Spain and Portugal by sending millions of pounds worth of meat to us.

From Russia at the present time we are importing millions of pounds worth of petrol and other oils beyond the value of our exports of manufactured goods to her. These, of course, have to be paid for, but we can only pay Russia by exporting our manufactured goods to the value of the trade balance Russia has against us to the countries from which Russia is buying the goods she wants because her market is closed to our goods. Our export trade is, however, in this case less than it need be, for under normal conditions Russia would have bought from us manufactured goods at least up to the value, and probably much beyond, of the goods we buy from her. Unhappily, at the moment of writing, British firms making agricultural machinery are in a very bad way owing to the sudden closing, by way of reprisal, of the Russian market to our goods. This lack of appreciation on the part of our statesmen of the meaning of what our export trade stands for in our national life has resulted in helping our competitors abroad to obtain a further

footing in the Russian market and so, by causing it to be closed to our manufacturers, some thousands of British workers have ceased to be producers and are now on the dole.

The above illustrations are sufficient to show how very complicated is the process by which ships are always sailing from every part of the world in order to empty their cargoes of foodstuffs, raw materials and luxuries into our ports. They also demonstrate how a very large proportion of our manufacturers and workpeople must suffer if anything happens to interfere with the smooth exchange of our exports for our imports, and how imports are dependent upon exports, and not vice versa.

Probably one of the chief reasons why the real value of our exports has never been properly envisaged by any Government for generations is that London is the centre of all our parliamentary and governing activities, so that our so-called statesmen and permanent departmental Government officials must spend the greater part of their lives in the thought atmosphere of that vast city, a world of its own.

London is the Mecca of the middleman, and its chief concern and occupation is the receiving and storing and distribution of imports and the arranging of all the intricate financial operations associated with the exporting and importing of a total of nearly £2,000,000,000 worth of goods. There is, therefore, no mystery why London attaches undue importance to imports, and incidentally why she became and still is the financial centre of the world.

From the Londoners' standpoint, whether

financial, distributive or necessitous, with its ten millions of mouths to feed, imports appear of far more importance than exports.

On the other hand, the chief exporting manufacturing centres like Glasgow, Newcastle, Liverpool, Manchester, Bradford, Sheffield, Birmingham, Belfast, &c., have never become articulate, nor has the meaning of exports from the standpoint of their well-being ever been generally visualized and understood. Even to-day, with trade worse than it has been and with over 1,500,000 unemployed on the dole, it seems hopeless to suggest that the Chambers of Commerce of our chief manufacturing centres should combine and insist upon those controlling our governing machinery and our National credit co-operating with them in their requirements as exporters. Until our manufacturers do realize the necessity of understanding the operations of international exchange in their effect upon retarding or expanding exports, and the fundamental difference between controlling credit facilities for the purpose of developing exports instead of cheapening imports, they will remain entirely ignorant of the foundation upon which their prosperity depends or the main cause of their recurring difficulties.

This fundamental factor is realized in the U.S.A. and Germany, and in fact in all the countries competing with us in the world markets, consequently their Governments are always very thoughtful of the interests of their manufacturers, and help to ensure that the banking and credit facilities of these countries are controlled and operated mainly towards helping and developing their manufactures.

The extent to which governing and banking facilities in Germany before the war were harmonized to the needs of their manufacturers was the main cause (of course in association with industry and enterprise) why she made, after receiving the £200,000,000 indemnity from France in 1870, such extraordinary strides and seriously challenged us in every part of the world. Yet the harvest of many years of hard work was, in the end, sacrificed to the pride of a military caste which finally and temporarily got the upper hand. Unfortunately, it appears that our national manufacturing genius, the experience of generations of hard work, experiment and organization, are also being more and more sacrificed to a caste, a financial caste, whose main concern is not to create profits from manufacturing and producing, which ultimately bear the whole burden of rates, taxes, interest, dividends, rents and all unearned incomes and increments, but to earn interest from lending and to make such interest buy as much as possible.

For generations, owing to our national genius, not only in manufacturing but in seamanship, colonizing, insurance and banking, we have reaped such enormous successes through our initiative and the lack of competition in world-wide trading, that we have never had to find out the reasons how to succeed. Only when our very success has made other nations envious and inquisitive, and from the pressure of increasing population compelled them to walk along the trails we have blazed, so that to-day there is no market in any part of the world we can call our own, are we faced with the need to find out and

understand the foundations upon which a stable Export Trade can be well and truly laid.

To-day, however, it is a matter of life and death that we should find out.

Unfortunately, owing to our past continuous success, we are the one nation least well-equipped to tackle the problem of ever-increasing competition, simply because we have taken everything for granted and never troubled to find out and understand the elementary laws underlying our past practical monopoly in exporting, the obedience to which alone makes it possible for us to hold our own in the future.

Any nation desirous of competing with us which tries to build up an export trade must first study the foundations upon which such a trade can be built. As all trade, whether internal or external, can only be carried on, let alone developed, by means of quickly acting and intelligently directed credit facilities, and in the case of exports only by studying the purchasing power of the money of their foreign customers in comparison with their own, our competitors begin by giving attention to these most important factors which alone bring success and which are matters our own exporters have never yet troubled about. The consequence is that the manufacturers of our competitors are always working in association with the sympathetic co-operation of their governments and their bankers, each understanding the need of the other, whereas in Great Britain such co-operation, certainly sympathetic co-operation, is practically absent.

It would be unthinkable to a British manufac-

turer with say an export order, unless of immense size, to ever dream of going to his banker as part of his ordinary business procedure, to obtain the necessary financial help to enable him to execute it and to prevent it from going to another country. If we were to do so, our respective bank managers would stare at us in amazement. Yet this is the normal procedure in the U.S.A., Germany, and many other countries, for their bankers realize it is to their country's as well as their own benefit to help develop the manufactures of their nationals. Yet the apparent callousness of our bankers is probably not due to stupidity or even indifference to the nation's well-being, but to the lack of such need in the past, and especially to the fact that when increasing competition is compelling British manufacturers to fight for their foothold in every market of the world, our manufacturers are ignorant of the factors which would help them to hold their own, and so do not combine to bring their needs to the knowledge of those controlling the use of the nation's credit power.

It is evident, however, that if our manufacturers' associations, if possible in friendly combination with the workers' trade unions, do not realize the importance and meaning of our export trade, and do not find out and obey the elementary laws and conditions upon which alone an export trade can be founded, maintained and developed, neither our Government nor those controlling our credit facilities will do this for them, and so bad trade and misery will remain in our midst.

CHAPTER IV
CREDIT POWER

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CREDIT POWER.

WE are all aware that production to-day has no relation to population, as was the case only some 150 years ago. Owing to the inventive mechanical genius of this and other nations, production has, for a long time past, increased many times faster than any increase in the population, so that to-day it is impossible to estimate even the increase which will take place in production during the next five years as the result of experience, invention, co-operation and "rationalization," rationalization being a recently adopted word to cover the elimination of waste effort by amalgamating competing and overlapping factors.

Yet suffering and misery amongst the middle and working classes, through lack of life's essentials, are as great to-day as at any time in the history of the world, taking into account the productive capacity of the nation; in fact nearly all the relationships of modern life are a contradiction of that which everybody knows, namely, that intelligently directed effort can achieve any object desired.

Why then do we and all our political parties, for they all profess a desire to remove the anomalies and tragedies of life, not make this directed effort?

Let us, therefore, try and understand how Credit Power, particularly the capital aspect of Credit Power, is created.

As an illustration we will take any manufacturing limited liability company. It begins with, say, a capital of £100,000 in £1 fully-paid shares, also a chairman, a board of directors, and one hundred shareholders, and a salaried managing director, who surrounds himself with an efficient body of co-workers.

After, say, ten years' working solid success is achieved, and the company can be expected henceforth regularly to pay out of profits earned a dividend of 25 per cent., the result being that the market value of the shares increases from £100,000 to round about £500,000. This market value of the capital of a successful company is roughly the multiplication of the amount of the paid-up capital by the number of times 5 per cent. goes into the dividend paid annually. We thus see the happening of a modern miracle, for without doing anything the shareholders now control five times the volume of surplus Credit Power they did originally.

To whom is the credit due? Is it to the shareholders, who have done nothing, or to the managing director and his body of co-workers, or to the community and national conditions which have provided the opportunity?

Always the startling fact emerges that the community only benefits to the extent of the taxes paid. As for the managing director and his co-workers, unless they become shareholders they will never

receive anything more than their salaries or wages, with no security for the future, for they are liable to be dismissed at any time. On the other hand, the shareholders, although they have done nothing and cannot be dismissed, have become entitled to a capital appreciation of £400,000, and the sharing out annually of £25,000.

It is in this and many other ways, like share manipulations upon the Stock Exchange, that the surplus of the wealth created by the work of the nation from day to day is collected by the more fortunate members of the community, some being born with silver spoons in their mouths, whilst others appear to be shrewder and perhaps more intelligent than their fellows.

Whoever or whatever they may be, they all do the same thing in the end, that is, they pay their dividends, proceeds of sales of appreciated shares, profits from deals, &c., into one or other of the banks. As, however, the depositors are many and the banks are few, the control of the capital resources of the nation, the concrete essence of the nation's Credit Power, passes from the tens of thousands of capitalists to the few financiers who control the policy of the banks. And this policy is almost entirely controlled by the Bank of England, because British banking is run upon what is called a gold standard basis, that is, the amount of gold, not earmarked for its notes, in the coffers of the Bank of England, is arbitrarily used to determine the volume of credit permitted to be used by industry and the rate of interest charged for its use.

Is it not obvious, however, that Credit Power in the form of capital (i.e., the right to use bits of the surplus of the nation's Credit Power) has no more to do with gold than cloth with the standard yard measure? An ounce of gold represents so much human effort in obtaining it, and as it has always been in demand for its qualities, and has always been rare and is still so to-day, it makes probably a better standard of value than anything else which could be devised, therefore its sole function, except for its use in the arts and crafts, should be to measure prices in the same way that the sole function of a yard measure is to measure lengths. Nevertheless, those who do control our Credit Power insist upon keeping 1,500,000 of our workers upon the dole, pending the deposit of more gold with the Bank of England.

When, however, we can get away from the realm of make-believe, like the U.S.A. has done, the fiction that a few pounds more or less of a metal called gold, in the custody of the Bank of England, must determine the amount of credit granted to our manufacturers, when not a penny of credit is lent to them except against the security of actual and existing wealth, will cease to frighten us and we shall be able to tackle the problems of unemployment and stagnant trade clear of the financial fog now surrounding them. What is evident is that unless and until the Credit Power of the nation, lent in the form of loans and overdrafts to our manufacturers against tangible assets, is controlled in the interests of national trade instead of inter-

national finance, we shall always have with us the horrors of unemployment, trade slumps and booms with their inevitable industrial disputes, and all the other contradictions to our claim to be considered an intelligent nation, for there is no doubt that our home and foreign trade is being sacrificed to the fetish of financiers.

The nation's Credit Power is the magic which moves our foods and goods from one end of the world to the other, and makes all exchange possible, so that those who control the volume of and the price charged for lending this magic, by means of which, say, cotton goods from Manchester are sent to China and exchanged for frozen mutton from Australia, finally determine the number of yards of cotton cloth which we shall be allowed to make in order to purchase frozen mutton, or in other words, the prices we must pay for everything and the number of workers we may employ. This power is too tremendous to be left much longer in the control of gentlemen, however honourable, as are undoubtedly the members of the Court of Governors of the Bank of England, so long as they are entirely independent of and outside the control of the national interests which literally represent the well-being of the nation.

CHAPTER V

THE BANK OF ENGLAND

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THE BANK OF ENGLAND.

IN 1694 the Charter of the Bank of England was granted in return for the loan of £1,200,000 at 8 per cent. interest to finance wars in Flanders. By means of that miracle worker, compound interest, this £1,200,000 became in the course of a few years £14,686,000. To-day, after paying back about £3,670,900 capital reduction and some £70,000,000 in interest, Great Britain still owes the Bank of England £11,015,100 and pays interest upon same at the rate of about £275,000 per annum.

It is significant that for centuries the Bank of England has treated Great Britain's indebtedness exactly the same as if it were gold. This is proved by the fact that the Bank of England has issued for its own private profit £11,015,100 worth of notes against Great Britain's indebtedness of the same amount, upon both of which amounts it draws in interest, say, £775,000 per annum, that is, over £75,000,000 per century.

If Great Britain, however, owes the Bank of England £11,015,100, and pays to it about £275,000 per annum in interest upon such debt, how are we to describe the issuing against the security of this

debt of Bank of England notes for £11,015,100 in addition? Is it not reasonable to suggest that the right to issue these bank notes cancelled out Great Britain's debt immediately it was granted by the Treasury, or else that the Bank of England has collected about £100,000,000 in interest more than it was entitled to, i.e., the interest it has charged its customers for the use of £11,015,100 worth of Bank of England notes for nearly two centuries.

What apparently is beyond dispute is that the Bank of England has collected, as the result of the loan of £1,200,000 to our Government in 1694, some £170,000,000 in interest upon the loan and the issue of its own notes, and Great Britain still owes the Bank of England a capital sum of £11,015,100, and the Bank is still entitled to issue its own notes for £11,015,100 as against such loan.

Anyone who knows anything about the political and financial history of Great Britain during the past two centuries could cite equal or worse cases of jobbery in the good old days of the Georges, but what is extraordinary is that the Treasury did not years ago insist upon Great Britain's indebtedness being wiped out as against the Bank's right to issue notes, for by its right to do this it immediately repaid itself every penny of the amount of the loan. Or, again, when the Government made a clear profit of about £300,000,000 by the printing and issuing of Treasury notes during the war, why did we not hand over to the Bank of England Treasury notes for the amount of the loan?

Although the Bank of England is treated as a

national institution and regarded as being almost beyond criticism, for we permit it to be the arbiter of our national fate financially, it is in fact a private bank, in existence to earn dividends for its shareholders. It is controlled by a Court of Governors, the members of which are not elected by the nation or by anybody having national responsibility, or even important trade interests, for the only reason which apparently counts in the election of a new member of the Court is the ownership of important international financial interests. The members of the Court are certainly not elected for their interest either in British agriculture, British manufactures, or British exports, yet the prosperity of the British nation almost solely depends upon these being supplied with sufficient credit to keep them in healthy activity. Nevertheless, the volume of credit and the rate of interest payable for its use wholly depends upon a number of gentlemen whose interests are acknowledged to be international rather than British.

International financial interests, however, continually conflict with those of British agriculture, British manufactures, and especially with British exports, and consequently we are left wondering how the Court of Governors of the Bank of England, although consisting of gentlemen of the highest character, repute and integrity, and entitled to the deepest respect by everybody throughout the world interested in international finance, can always act impartially when they are continually faced with the difficulty of having to choose between their

shareholding, banking, and international interests, and those of the agricultural, manufacturing and exporting interests of our farmers, manufacturers and workers.

Is it blasphemy to suggest that every now and then, as in 1920, the temptation at last becomes irresistible (even when deflation had become necessary up to a degree to prevent harmful speculation and inflation), to justify to themselves their use of the control of the nation's Credit Power in such a way that by restricting credit the *purchasing* power of the £ sterling should be so increased, both nationally and internationally, that interest upon every form of loan, including the interest upon the National Debt, should contain concealed profits of almost fabulous amounts?

If we permit a body of men, however honourable, whose discretion is unlimited but whose interests are not necessarily British, and at the same time are outside of all national control, to direct the financial policy of Great Britain, we are guilty of such colossal ignorance that we ought to go on suffering until we learn how to safeguard British agriculture, British manufactures and British exports.

What, however, is the remedy? Is it to nationalize the Bank of England? We do not believe it is. Any attempt to nationalize a British bank would not only meet with formidable opposition, but would create such world-wide commercial disturbance and distrust that, in view of our need to purchase and pay for huge quantities of food or

raw materials with our export of manufactured goods, Great Britain would more than lose any benefit resulting from such nationalization. If the Bank of England were nationalized, the lack of privacy and the absence of political independence which would result would only strengthen the position of and increase the already large number of foreign banks in our midst and which could not be nationalized. The Bank of England, as do all the British banks, fill a very honourable as well as a very useful function as world-wide negotiating channels, and can well be let alone, for under any scheme of things, with their claws deeply sunk into every part of Mother Earth, and from a banking standpoint trusted by everybody, as they deserve to be, we could always use them with advantage.

The remedy we advocate is for the Treasury and the Chancellor of the Exchequer, in association with the Bank of England and representatives of our chief industries and leading banks, to act with full discretionary power with regard to the Bank Rate and the volume of credit to be put into circulation at any given moment in view of the national necessities then existing. Of course such a body with such powers must be outside of and independent of any possible political manipulation.

CHAPTER VI

THE GOLD STANDARD: INFLATION
AND DEFLATION

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THE GOLD STANDARD: INFLATION AND
DEFLATION.

PROPAGANDA has never been more successful than that waged to prevent those outside a very small and personally interested circle from learning the A B C of our national finance. To prove this it is only necessary to ask one question.

Is there a bogey word in our language which is more effective to prevent investigation or discussion than to say any proposal will produce "Inflation" ? Charge any plan put forward for dealing with national economics that it may bring about any degree of inflation and it is condemned out of hand.

If there are words more highly placed and sacrosanct than the word "Inflation," they are the words "Gold Standard," the enthronement of which has been established by the same propaganda and by the same interests which have so successfully frightened us with the word "Inflation."

How many people are there, however, who worship at the shrine of the "Gold Standard" and are frightened by the bogey word "Inflation" could explain intelligently what they worship and what

they are afraid of. This ignorance of a subject which literally concerns the well-being of each one of us personally and individually is also a deliberate result of the same propaganda.

Let us therefore try and explain what these words really mean as simply as possible.

As everybody knows, money, in any shape or form, has no value apart from its *purchasing* power. A ton of gold would be of no more value, and might even be less, than a ton of sand to anyone marooned upon a desert island. Unless gold, notes or other money can be used to purchase what its owner requires, that is, made to circulate amongst people willing to accept it as a medium of exchange, it has actually and literally no value.

Inflation and Deflation, therefore, merely describe any change in the *purchasing* power of a fixed amount of our money expressed in the quantity of goods we can obtain by import from another country or can buy in our home market. Conversely, it also covers the amount of goods we have to export to another country for a given amount of money used by such other country, or the quantity of goods we are compelled to offer in the home market in order to sell them for any given amount of our money.

Deflation can also be described as the means by which we make it difficult for people all over the world to buy our goods, but easy for anyone with money or international credit to buy theirs and to import them and offer them so cheaply in the home market that British manufacturers cannot continue to make them and so must discharge their workers.

Deflation can also be described as the means by which any body of people living on interest, like bankers and financiers, can increase the *purchasing* value of interest so as to obtain an $8\frac{1}{2}$ per cent. return in goods when only charging apparently 5 per cent. interest to their customers in money.

ON THE OTHER HAND, THERE IS THE SCIENTIFIC MIDWAY POINT WHICH COULD BE FOUND IF INDUSTRIAL PROSPERITY WERE THE REAL AIM.

Dear money, i.e., limited credit, which buys cheaply, that is, a larger amount of goods, and cheap money, i.e., plentiful credit, which buys dearly or a smaller amount of goods, in this country, because of our dependence upon the world to feed us, closely reflects the international exchange value of the £ sterling, although in a self-feeding country this relationship need not, and as a matter of fact does not, exist to anything like the same degree, except in the prices of imported goods. We alone out of all the nations of the world have to import so much of the ordinary necessities of life that any movement in the international value of the £ sterling is almost automatically reflected in home prices.

Whether money is cheap or dear is therefore the most potent factor in determining the price at which goods are sold in the home market, and whether money is cheap and plentiful or dear and scarce is mainly determined in the case of Great Britain by the international financiers composing the Court of Governors of the Bank of England, who regulate the amount of currency and credit they permit to

circulate within Great Britain. It is in the control of this currency and credit, in association with the maintenance of the Gold Standard, that a few international financiers are able to determine whether our export and home trade shall prosper, and whether we shall have 300,000 or 1,300,000 potential producers unable to find work.

The Gold Standard, which it is blasphemy even to examine, let alone criticize, is the maintenance of an arbitrary and artificial relationship between the amount of gold in the vaults of the Bank of England and the amount of credit permitted to us as a nation of manufacturers to hold our own with as against the world. This relationship of so many ounces of gold to so many sterling pounds of credit is maintained irrespective of the needs of the nation in the natural increase of the population, and the consequent necessity for increasing our home trade and exports so that work may be found each year for the 200,000 boys and girls who leave school without displacing the older workers by employers taking on younger, and therefore cheaper, labour.

The Gold Standard, if it is to be maintained, must ignore the opportunities open to British enterprise to supply the growing demands by backward nations for the products of civilization.

It must also ignore the ever-increasing growth of mechanical efficiency associated with better organization which result in increased production.

It must also ignore the normal increase in the demand by our people, as the result of education and other refining influences, in the need to express a fuller and more varied life.

Last, but not least, it must also ignore the absolute need for us as a nation to make vastly greater profits than we did before the war, and which can only be done by enormously increasing our turnover, seeing that out of profits, for there is nothing else for them to come out of, we have to find for the upkeep of Government alone £800,000,000 per annum as against £181,000,000 in 1913.

The Gold Standard, Inflation and Deflation, and Dear or Cheap Money, are in the case of Great Britain so closely allied and identified with one another that they cannot be considered separately; yet in any country with an increasing population, even if the demands of the people per head are not increased, credit must be restricted if the artificial requirements of an arbitrary Gold Standard are to be satisfied unless there is a proportionate increase in the gold reserve. Restricting credit, however, increases the purchasing value of the £ in the home market, but any increase in the purchasing value of the £ sterling instantly lessens the purchasing value of the currencies of all the nations of the world, our actual or potential customers. The more our money buys the greater becomes our difficulties in selling our goods all over the world.

CHAPTER VII

THE PROFITS OF PRIVATE CONTROL

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SINCE 1920 two of the principal causes of our industrial troubles have been a too rapid deflation followed by the re-establishment of the Gold Standard, but the reason why an extreme degree of deflation and an arbitrary standard have been imposed upon us, and why we have had to endure the last eight years of misery and suffering, are obvious when we set out some of the incredibly hidden profits garnered by our financiers and the interests they represent.

By steadily, relentlessly and remorselessly increasing the *purchasing* value of the £ sterling from what it was in 1920 to what it is to-day, that is, by some 40 per cent., the international financiers who control our credit resources have not only turned some 1,500,000 workers out of their jobs and created all the national misery, trade disturbance and industrial difficulties this unemployment is but the index of, but they have created such enormous hidden profits that they are scarcely to be believed.

Their crowning achievement has been to increase the *purchasing* power of the National Debt as against its book entry value of just under

£8,000,000,000 (including Ways and Means, Advances, &c.) to some £11,200,000,000, that is, they have created since 1920 on behalf of the National Debt holders a concealed profit of £3,200,000,000 as against the nation, by increasing the *purchasing* power of the £ by some 40 per cent. more than it was in 1920.

Again, the *purchasing* power of the interest we have to pay every year upon the National Debt of a book figure of about £400,000,000 per annum has been increased by some £160,000,000 per annum. That is, in 1928 we have to make £160,000,000 more worth of goods to pay the interest upon the National Debt than we did in 1920, so that this interest in its *purchasing* power actually costs the nation £560,000,000 per annum to-day as against £400,000,000 in 1920, yet in the nation's balance sheet, the Budget, it will still only appear as £400,000,000.

(Please bear in mind that mere book entry money figures have no significance unless we know the average amount of goods they represent, for the sign £1 means nothing in itself apart from its *purchasing* power.)

Again, the burden of taxes and rates represented by £800,000,000 for National Government and £400,000,000 for Local Government (all of which have to be paid ultimately out of agricultural and industrial profits, for these are the only channels through which they can be brought into being), requires to-day as against the amount required in 1920 some £420,000,000 more worth of goods to

pay for them, although the book entry figures for both years are about the same. That is, non-productive consumption for national and local government upkeep imposes a tax upon the nation, through increased *purchasing* power of money, of about £1,620,000,000 in 1928 as against £1,200,000,000 in 1920, yet the book entry figures for 1928 will only show a burden cost of about £1,200,000,000.

Is it any wonder that trade is languishing and national distress increasing, when such a dead weight load of rates and taxes has to be taken from the profits earned by the nation.

We have, however, not yet finished with our few examples of the consequences of "making the pound look the dollar in the face."

The rents which we have to earn and then pay to our landlords for the right to find a place to sleep in represent, even if they have not been increased since 1920, a hidden profit of some £140,000,000. Assuming the amount paid in 1920 to our landlords was some £350,000,000, and even if there has been no increase, we are actually paying them the equivalent to-day of some £490,000,000 per annum, yet on paper the amount would still appear as only £350,000,000, and we should be unaware of any increase, except in our increasing difficulty to meet rents, rates and taxes punctually.

Then there is the increased *purchasing* power of the dividends paid to shareholders.

Approximately, the price of shares of limited liability companies is determined by assuming that

they give a return of 5 per cent., so that conveniently we can put the dividends drawn in interest upon capital invested at 5 per cent. It is estimated that the annual amount so drawn is some £1,000,000,000 which is approximately equal to the annual wage-bill of the country. As a result of the control of our finances by financiers, the actual *purchasing* value of this dividend income of £1,000,000,000 in 1920, and assuming that the amount paid in 1928 still only appears as £1,000,000,000 in the form of book entries, the *purchasing* value of this amount is some £400,000,000 more than it was in 1920, without apparently increasing the rate of dividend by a fraction. Yet in 1928 the same dividend as that paid in 1920 will buy 40 per cent. more worth of goods, so that the *purchasing* power of a 5 per cent. dividend paid in 1928 is equal to 7 per cent. paid in 1920.

Then finally there is the charge made by our banks to their customers for credit facilities in the form of loans, advances and overdrafts. The general practice is to charge 1 per cent. above bank rate which, with the bank rate at 5 per cent., as it has been on the average for years, makes the interest apparently charged by the bank 6 per cent., neither more nor less. But if the *purchasing* value of this 6 per cent. has been steadily increased so that today it will buy on the average 40 per cent. more than it did in 1920, the interest charged by banks to their customers for credit facilities is actually 8.4 per cent., although from our bank pass books we still only pay 6 per cent.

No wonder the international financiers who control our credit facilities have had little difficulty in persuading themselves that a policy of deflation is in the interest of the nation at large and that they were justified in disregarding, in the name of national safety, all industrial interests, the development of exports, the improvement of trade generally, and the national consequences of the unemployment which their action created in 1920.

Yet in their control of nearly all the credit power available surely they were mainly responsible for any undue degree of inflation which existed in 1920. No inflation could have occurred, prior to 1920, without their consent, so we can only assume it was part of their policy to encourage inflation up to that time.

Granting that speculators and the Stock Exchange were exploiting the national prosperity unduly, this could easily have been arrested without frightening us all with the bogey of inflation and ruining us industrially.

Why did they, under the cloak of the need to establish healthy financial conditions, levy a hidden tax upon the community which has made enterprise impossible, prevented us from holding our own in foreign markets, increased the difficulties of our manufacturers who make for the home market by the competition of ever cheaper and cheaper imports, compelled millions of our productive workers to become unproductive loafers, created industrial conditions which have produced the worst strikes and lockouts in the history of our country, and brought

our railways and staple industries connected with coal, iron, cotton and shipbuilding to the verge of bankruptcy? Yet all this has been done in the name of and for the sake of national safety and the need to establish saner finance, which, if insane, they were responsible for having permitted and encouraged. The large profits reaped, however, by all the financial interests in our midst, as the result of their efforts to save us from financial disaster in 1920, make us wonder, after eight years of more or less continuous deflation, whether the advice given was as disinterested as it appeared to be at the time.

CHAPTER VIII

CONCLUSION AND SOME SUGGESTIONS

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WHAT are the conclusions we are compelled to come to as the result of our investigations? Broadly, four:—

(1) *Above everything else that the whole of our national energies, political, manufacturing, financial and scientific, should be concentrated in protecting and expanding our Export Trade, which, unless flourishing, reacts upon national conditions and causes depression in the Home Trade;*

(2) *That the demand for Cheap Imports camouflages an exploitation of the community in the interests of money at the expense of our manufacturers;*

(3) *That so far as Great Britain is concerned there is no principle at stake that is of any real consequence in the controversy between Free Trade and Fair Trade, because both methods should be used by us whenever necessary in order to: (a) keep open our overseas markets, (b) protect our home industries, and (c) secure cheap raw materials for manufacturing which we cannot produce ourselves;*

(4) That the control of the nation's Credit Power, really the value of the surplus of wealth produced by the community after the payment of all working and running expenses, should be in the control of a nationally representative body instead of in that of the Court of Governors of the Bank of England, whose interests are not identical with those of our manufacturers.

In trying to discover a solution of our national unemployment problem, which is after all finding out the causes of the depression in our staple industries and then removing them, we shall find the four directions mentioned above are all-responsible and so interwoven that they cannot be separated.

Mainly, the trouble is a financial one, due to the policy being pursued by those controlling our national finances, who could not control the policy without controlling the use of the national credit surplus.

When, therefore, we realize that the policy of the Court of Governors of the Bank of England chiefly determines ultimately how the control of this credit surplus is and will be used, it becomes of national concern to find out what this policy is and how it affects our manufacturing interests and the development of our Export and Home Trade opportunities.

What is clear beyond any dispute or argument is that the deliberate and persistent policy of the Bank of England, ever since 1920, has been to make the international value of the £ sterling as high as possible, that is, to make goods in the terms of our

money cheap, and our money in the terms of goods dear.

Because we are dependent upon the world for more than half our food, and for an enormous quantity of raw materials, any alteration in the international value of the £ sterling is almost immediately reflected in the *purchasing* power of money in the home market.

Without any need to be subtle, the obvious consequences of making the *purchasing* power of money greater and ever greater when pursued consistently for eight years with steadily gathering success can be summarized as follows :—

In 1920 our financiers struck a deadly blow at national prosperity by suddenly withdrawing credit to an altogether unnecessary extent on the ground that deflation was imperative. This deflation they declared was necessary in order to save the country from ruin, and so in the name of sound finance they ruined this country so as to prevent it from being ruined by unsound finance, which they were themselves responsible for permitting ;

The almost immediate result of their plan of campaign was to take away the work from a million and a half of productive workers, so turning them into dole-loafers ;

This army of unemployed, which has been with us ever since 1920, is the clearest evidence obtainable of the extent to which manufacturers were ruined or hampered and our home and foreign trade reduced. As a productive worker is calculated to produce upon an average about £200 worth of goods per

annum, this amount multiplied by 1,500,000, the number of men and women suddenly turned out of the nation's workshops in 1920, gives £300,000,000 as the volume of trade we were prevented from executing or securing ;

If the number of unemployed, say 1,500,000, is multiplied by the average weekly wage, say 40s., they were prevented from earning, £3,000,000 weekly was suddenly taken from circulation amongst our shops, &c., thus crippling our home trade ;

As we could not permit this army of unemployed to starve, the already impoverished community had to shoulder a still further burden by meeting a dead loss charge of some £1,200,000 weekly for doles and outdoor relief ; but

The most terrible consequence, which resulted from the intense deflation policy suddenly imposed upon us in 1920, was its influence upon the health and physique of our babies and children, and our youths and maidens. What the accumulative effect of this must be upon the generation now growing up, as the result of the past eight years of under-nourishment and bad housing, is almost too appalling to contemplate.

All the foregoing miseries were but the immediate consequences of the initiation of the alleged plan to save the country from ruin in 1920.

As year after year the policy of deflation was relentlessly pursued, further miseries and burdens were imposed upon us. Let us mention a few.

Making the £ sterling ever dearer in its exchange value when turned into the money of our overseas

customers at a greater rate than our manufacturers were able to reduce their costs of production (the need for which being mainly responsible for the attempts to reduce wages and the consequent industrial unrest), many millions of pounds worth of export orders were lost, and every year we found it increasingly difficult to maintain a footing in markets which have been ours for generations, owing to the prices we had to charge only to pay expenses. This has been one of the principal causes why our army of unemployed has not decreased, in spite of our never-ending struggle against our difficulties.

Again, the all too successful endeavours to increase the international value of the £ sterling in its *purchasing* value as against the currencies of the world, has enabled importers to flood our home market with all kinds of foreign-made goods, so that thousands of our manufacturers who catered for our Home Trade have found it every year more and more difficult to compete, largely owing to their costs of production not having fallen to the same extent as the international purchasing value of the £ sterling has appreciated. This again has been an important factor in maintaining our army of unemployed at its formidable numbers. (Incredible as it may seem, only to mention one instance out of thousands, we are now importing annually some 500,000 tons of steel from abroad which we could and should and did make in our steel works at home.)

Yet by partially ruining trade after trade our financiers declare they are saving us from ruin.

Finally, there is the unconscious but, nevertheless, deadly poisonous effect upon the character of the whole nation that we are being beaten in the struggle for existence, and if this poisonous idea once establishes itself as an accepted fact then truly has Great Britain no future.

What is the remedy for this deplorable, nay terrible, state of things ?

If our statement of facts is a true statement, and we know that it is, it is committing national suicide to continue to permit our manufactures and our home and foreign trade to remain at the mercy of a few international financiers who, although independent of all national control, yet control the greatest of all our national assets, the Credit Power of the nation. These gentlemen are an exceptionally honourable body of men, judged as financiers, but their financial interests are international, which inevitably must conflict with Great Britain's manufacturing interests, sooner or later.

What makes the position ludicrous and grotesque is that these gentlemen are not even professedly concerned with protecting British manufacturing interests, but only in protecting money interests, with the result that the prosperity of British manufactures must always take second place if in conflict with the *purchasing* power of money.

As to the nature of the control of the nation's Credit Power which should replace that of the nationally irresponsible Bank of England, there is no doubt that this should be the responsibility of a committee representative of all the principal national

interests involved, as previously stated in Chapter IV, which must be for ever independent of any political wire-pulling.

It is, of course, unthinkable that any political party coming into power, say for a few months, should be able to tinker with our national finances.

The elementary necessity, therefore, is to get a really representative body at work whose duty it would be to settle what our national financial policy should be under normal conditions. We suggest that this representative body should be composed of members elected from, amongst others, the Federation of British Industries, the principal Chambers of Commerce, the Trade Unions, the Banks and Discount Houses, and the Treasury, and that it should be presided over by the Chancellor of the Exchequer.

It is useless to draw up an agenda, for this would have to be all-inclusive and very elastic, but in any event one thing would have to be attempted, for all else hangs upon it, and that is to try and discover the factors which must be studied exactly as if we were trying for the first time to successfully establish a footing in any given market, whether at home or abroad. If we were to do this we should consciously come face to face with the same problems which so many other countries have had to face in trying to compete with Great Britain, and for the first time in this country we should find out the foundations upon which alone trade can be carried on successfully in the home markets and the markets of the world.

As a final word we would once more emphasize, even at the risk of being irritating, that mere money-figures are useless in drawing comparisons unless the average purchasing powers of such money-figures are known. For instance, in 1920 we were able to pay an income tax of 5s. in the £ with less national effort than 4s. in the £ in 1928, simply because 5s. in 1920 bought, upon the average, a less quantity of goods than 4s. buys, upon the average, in 1928, the year in which we are writing.

In order, therefore, to determine the burden which a nation is carrying in any year, whether it be in the form of taxes, rates, interest, dividends, or rents, all of which can be roughly classified as dead-weight charges upon the nation's productive efforts, we shall continue to live in a fool's paradise unless we know the average purchasing value of the money-figures we are comparing.

Before the nation, as a whole, can pay these dead-weight charges, it must first accumulate them out of the profits made from agriculture and industry, for, ultimately, they can come from nothing else. Consequently, even if the total amount the nation has to find every year for taxes, rates, interest, dividends and rents, remains, in money-figures, identically the same, say for the eight years from 1920 to 1928, yet if the purchasing power of these money-figures is steadily increased from year to year the national burden borne by agriculture and industry is increased in exact proportion to such increased purchasing power.

This is obvious because if £1 buys more in 1921

than it did in 1920, and more in 1922 than in 1921, and so on, more goods have to be produced in 1921 to satisfy the same amount of dead-weight charges than was necessary in 1920 and so on with an ever increasing burden from year to year.

When, therefore, we draw a comparison between 1928 and 1920 and find that, upon the average, the purchasing power of money has been enormously increased during this period, we shall have little difficulty in recognizing one of the principal causes why both our home and foreign trade are languishing and our army of unemployed has become a permanent institution.

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