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# THE FUTURE OF CAPITALISM.

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## PREFACE.

THE purpose of this little book appears too clearly in the first few pages which follow for me to detain the reader on the threshold by explaining it here.

My excuse for writing a preface is that I have summarised and ventured to criticise the views of certain authors. To those authors I wish to apologise if my summaries do not seem to them to do justice to their arguments, and to assure them that, if so, it is not for want of honest endeavour on my part.

Should any of them ever see this preface, perhaps he will be placated for any inadvertent misrepresentation by the request which I now make to my readers: namely, that they should treat my summaries as incentives to study the books themselves.

To make this easier, a list of the books referred to in my text, with the names of their publishers, has been placed at the end of the last chapter. It is hardly necessary to add that it is very far from being a complete list of books which treat in some way of the future of capitalism.

As I hope to discuss the papal encyclical on The Social Order (*Quadragesimo Anno*) in a later book, I have not thought it necessary to quote it extensively here, though I hope that the following pages are in full harmony with its teaching.

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## CHAPTER I.

### CAPITALISM IN EVOLUTION.

To those who live in the present, as most of our citizens have to do in these days of economic insecurity, it is not as obvious as it might be that the economic system (to use a convenient phrase) in which they find themselves is by no means fixed and immutable, that it has changed a great deal even in the recent past, and that there is good reason to believe that it will continue to change in the future. Nor is that future so remote that the ordinary citizen may be content to leave speculation about further developments to social philosophers as being a matter of purely academic interest of little or no practical concern to the present generation. The next ten years is certainly not the remote future; yet detailed proposals for fundamental changes to be made within that period have recently been put forward by one who can speak with no little authority for one of our political parties, Mr. G. D. H. Cole (in *The Next Ten Years in British Social and Economic Policy*). If those changes are put into effect, the methods of production and distribution of wealth at present prevailing in this country will be drastically altered, and will affect everyone for better or for worse. It is true that Mr. Cole speaks in the name of socialism, and that we are accustomed to expect the advocacy of far-reaching economic changes from those who support that programme. But the Liberal Party insists on its own anti-socialist attitude, and nevertheless has authoritatively issued proposals for practical action

which would change the whole complexion of our economic system, in the "Yellow Book" (*Britain's Industrial Future*). A weekly review of an independent turn of mind, but not without Conservative sympathies, issued in February 1931 a lengthy supplement proposing a most comprehensive overhauling of our political and economic organisation (*A National Plan for Great Britain*, issued by *The Week-end Review*). Outside the ranks of the political parties stand the Distributists, not very numerous, but appealing to the rather vague conviction of the majority of our population that our economic system has got out of hand, and including in their ranks able writers and propagandists who are adepts at sniping at Big Business. Quite recently Commander Shove, an enthusiastic Distributist, has given his reasons for believing that industrial catastrophe is imminent and that Great Britain will very shortly, whether she likes it or not, fall from the phalanx of industrial nations and, after a distressful interlude, become a Peasant State (*The Fairy-Ring of Commerce*). He can claim to be in the tradition of the school which he represents, for as long ago as 1912 Mr. H. Belloc published *The Servile State* to prove that capitalism is essentially an unstable system, that it is evolving under our eyes into something else which there is grave reason to fear would prove stable (the servile state), and that the only alternative to this is to set up a distributist state characterised by widespread ownership of land or capital or both.

Needless to say, this is not an exhaustive catalogue of recent prophecies and proposals about capitalism. It is a selection of books and authors having criticisms to make and suggestions to offer which have interested myself, and which seem to be



of some significance to the present age. To it should perhaps be added the writings of those who call themselves the New Economists, and who are usually termed by their opponents "currency cranks." To attempt an exhaustive account of their views about the sickness of capitalism is a task to make the boldest quail; and yet the Report of the Macmillan Committee on Finance and Industry, as well as Mr. J. M. Keynes's epoch-making book on Money, has made it plain that capitalism on its monetary side is not above criticism and reform.

The publications mentioned (and a host of others which it is not possible to enumerate here) are evidence that there is a considerable amount of dissatisfaction with our present economic organization. It is in the highest degree improbable that this dissatisfaction will confine itself to the pages of popular or technical treatises. Rather is it practically certain that discontent will take shape in legislative proposals for drastic changes in the structure of our economic system; just as dissatisfaction with incidental defects and abuses has led, in the past, to attempts to remedy them piecemeal by law. It is evidently the duty of every intelligent man and woman, interested in the welfare of the nation and of the world, to become acquainted with the main outlines of the growing body of criticism urged against capitalism, and of the proposals which the critics make for its reformation or transformation, so far as that can reasonably be done. Not to do so is to be guilty not only of bad citizenship but of imprudence; for it cannot be too clearly stated that the inevitable changes, when they come, will be felt by everyone.

In this matter there is a real danger from an error into which the imagination may lead us—perhaps

it would be truer to say, a *lack* of imagination : namely, that because in our experience the social machine seems to have always worked in a certain way, it will continue to work in that way, at any rate, during our lifetime. How easy it is for apathy or indolence to say, *Après moi, le déluge!* How comforting a thought it is that, in spite of programmes and propaganda, things will always go on in the same time old way! Comforting, that is, for those who are satisfied with the old way. For those who are not, it may be an extremely depressing thought. But, whether comforting or the reverse, it is most certainly untrue, and a little knowledge of history should prove its falsity. For hundreds of years Britain was part and parcel of the Roman Empire, penetrated with Roman culture, and accepting Roman social institutions. To those who lived in that day Roman Britain must have seemed destined to remain Roman for ever. Yet the time came when the trumpet-call sounded for the withdrawal of the legions, and Roman civilisation became but a memory. For a thousand years Britain was Catholic, and it must have appeared unthinkable that she should ever be anything else; yet the time came when her monasteries were destroyed and left in ruins for uncomprehending tourists to gaze at, her priests butchered, and her altars pulled down. The economic system which we have with us to-day has lasted a far shorter time than the Roman political system or the Catholic religious system in this country. Why should we expect it to endure?

But without going back centuries for examples to show that belief in the permanence of social institutions is an illusion, we have our proof in the history of capitalism itself. In the last hundred

years it has been modified, if not out of all recognition, at least very considerably indeed. The early nineteenth century was characterised by the economic system which we call Capitalism; so is the early twentieth. But it is Capitalism with a difference. The passing of the years has eliminated some features and replaced them with others not always more attractive than those which have gone. The industrial system of the early nineteenth century was marked by machine-production just as it is to-day, but machinery is used now on a scale which would have astounded the manufacturers of a century ago. The consequence is that the rate of production has risen enormously and is still rising. The Macmillan Report gives figures to show that even so recently as between 1925 and 1929 industrial production has increased in all the leading manufacturing countries. It estimates that the output per worker per hour was probably 10 per cent. greater in 1929 than in 1924, and 33 per cent. greater than in 1907. In the coal industry, it increased 27 per cent. between 1924 and 1929, in the iron and steel industry 20 per cent., and in engineering and shipbuilding 15 per cent. In the early nineteenth century the economic problem seemed to be one of producing enough to satisfy the demands of a growing market; to-day the problem is one of finding a market for our industrial output. A further consequence of the vastly increased use of machinery is the increased pace of production, putting much greater strain upon the worker, and introducing the problems of fatigue with which the new science of industrial psychology endeavours to deal. The type of worker required by industry is changing, for as machinery becomes more and more specialised, more and more

capable of taking over the most delicate and complicated tasks, the demand for the skilled craftsman is yielding to a demand for semi-skilled hands able to tend costly machines.

This in its turn is affecting the position of the trade-unions, as Mr. Cole points out in his book already mentioned. Those which cater for the craftsman are finding their position weakened, while the unions of unskilled and semi-skilled workers are growing in importance. This is of course a fairly recent development, for in the early nineteenth century trade-unionism was battling for its right to exist at all in the face of the prevalent political theory of *laissez-faire* (which meant anything but "leave them alone" when applied to unions of workmen) and the opposition of employers who wished to buy their labour at the cheapest price. Even to-day the function which trade-unionism ought to fulfil in our economic organisation is a subject of controversy, and is one of the major problems of the near future. If unions within the nation have succeeded in organising themselves on a fairly sure footing only within living memory,\* still more recent is their organisation on an international basis. The International Federation of Trade Unions was not founded till 1901, and has a long way to travel and many lessons to learn before it can justly claim to be an international organisation of the working-class as a whole. The Christian workers have their international, with close upon three million members; and there are the International Trade Secretariats representing (in 1928) workers in twenty-seven industries. None of these

\* There are about 200 unions affiliated to the Trades Union Congress, with a total membership approaching 3½ millions.

international organisations existed a hundred years ago.

Turning from the organisation of the workers to that of the employers, we have now over two thousand employers' associations, and overshadowing all the others the great Federation of British Industries and the National Confederation of Employers' Associations. "We do not know how many national organisations there are, how their funds are raised, how much they are, or how they are spent," complain the authors of *Britain's Industrial Future*. But at least we know that these associations of employers are characteristic of capitalism to-day, whereas the employer of the early nineteenth century was essentially an individualist, believing in the creed of each for himself and de'il tak' the hindmost. Even the word "employer" means something different now from what it meant during the Industrial Revolution and for years afterwards. No longer, when we use it, must we refer only to individuals who, with the aid of capital supplied by themselves or borrowed from a bank or from some few wealthy people, set up a factory and engage labour. We must think chiefly, at least when we are discussing the vital questions of our economic organisation, of joint stock companies with limited liability, drawing their capital from a wide area and issuing in exchange for it shares and debentures and other forms of securities which can be transferred from one holder to another in the open market. The real owners of these companies are the shareholders (the debenture-holders being merely creditors of the company), but the management and control of the business of the company are in the hands (nominally) of a board of directors, actually in the hands of the *active*

directors. It is true that an annual meeting of the shareholders must be held, at which the policy and conduct of the directors may be criticised, but it is a matter of common knowledge that in spite of this the shareholder (unless he happens to hold a large block of the company's shares) has practically no voice in the policy of the business of which he is legally part-owner. Under these changed circumstances, who is the "employer"? Morally, no doubt, he is the body of shareholders; to the ordinary workman employed in the business, he is the works manager or the foreman; to the trade unions, for purposes of collective bargaining, he is the most dominant figure among the directors, usually the managing director. Amongst all the differences between capitalism as it used to be and capitalism as it is, this change from the individual capitalist-employer to the limited-liability joint-stock company is the most important in its practical social consequences.

Under the influence of Malthus and his school, the nineteenth century dreaded the Law of Decreasing Returns in agriculture, and was haunted by the fear that the population would, in the absence of preventive checks, tend to press upon the means of subsistence. There is still a school of propagandists with an axe to grind which holds that boggy aloft to make our flesh creep; but the indubitable fact remains that "the absolute volume of agricultural production has greatly expanded without a corresponding rise in the cost of production," and that between 1913 and 1928 the production of foodstuffs increased by 16 per cent. and that of raw materials by no less than 40 per cent. (*Macmillan Report*, pp. 57 and 60). In the same period the population of the world increased

by 10 per cent. As was said above, our economic problem is no longer to be envisaged as one of producing enough, but of marketing what is so abundantly produced.

We have as yet by no means exhausted the list of features which make modern capitalism look so different from its earlier self. The free competition between producers which marked it in its youth has been replaced by association and combination between them. The question of what are still known by the antiquated name of "trusts" cannot be thoroughly examined here. The Committee on Trusts threw a great deal of light on the extent to which British industry is already "trustified," and the recent efforts at rationalisation are leading to further amalgamations and combinations, not merely on the productive side of industry but also on the distributive side. This latter development is of extreme interest. It is worth mentioning as an illustration of the tendency to amalgamation in the business of distribution that the Margarine Union of Holland, formed in 1927 to amalgamate two Dutch firms, amalgamated with Lever Bros. as from January 1930 and took the name of Unilever; it controls directly or indirectly the Home and Colonial Stores, Maypole Dairy, Meadow Dairy, Liptons', Pearks' Dairies, etc. The International Tea Company is another amalgamation which controls a very large number of shops. The drapery business is also passing through a similar experience to that of the provision trade. There is no intention here to assert that any of these amalgamations are guilty of charging unduly high prices to the public; but in view of the complaint that wage-rates are ruining our industries, and of the "stickiness" of the level of retail prices, it is

evident that the community cannot be expected to acquiesce in the uncontrolled operation of amalgamations in the distributive trades.

In the hey-day of free competition, *laissez-faire*, and the early large-scale production, capitalism was nationalist; in its search for markets it became imperialist; and it is becoming internationalist and inter-imperialist. An interesting example of international organisation of capital is the European Steel Cartel, with its attempt to allot marketing areas to its members, to apportion quotas of output, and to settle prices. The Swedish Match Trust holds a monopoly in several countries. The great Oil Combines have subsidiaries and ramifications all over the world. Mr. Ludwell Denny (*America Conquers Britain*) has given us some striking facts about the international contest between American and British capitalism. He mentions that American General Electric (one of the largest of the international combines) controls the public utilities of eleven foreign countries. It partly controls German General Electric, which is the most powerful combine in its line in Europe, and fully controls Canadian General Electric. Its stockholders are the largest shareholders in British Associated Electrical Industries, which is the largest electrical combine in Great Britain, and represents a merger of Thomson-Houston, Metropolitan-Vickers Electrical, Edison-Swan Electric and Ferguson Pailin. These are but a few examples of the international character of modern capitalism.

To attempt to obtain political control is but a step from having obtained economic control, since the political conditions of a country are of enormous importance to successful industrial and commercial operations. So we find Mr. Denny, who looks at



the question with American eyes, stating that in fourteen of the twenty Latin republics of South America there is some form of fiscal, political, or military control exercised by the United States. This is often a catastrophe to the country whose raw materials have attracted the attention of powerful combines. Mexico has suffered bitterly from the oil war between the Mexican Eagle and the Standard Oil companies. Bolivia's tin mines have brought to her not wealth but poverty. To quote Mr. Denny again, "Tin is making Bolivia a colony of the United States. Wall Street bankers and corporations either own or have a mortgage on much of Bolivia's resources and have an appreciable control over Bolivian fiscal affairs. . . The net result is that the Bolivian people, living in the midst of great natural riches, are poor; living in a nominally independent republic, they are subservient to the United States."

With the vast developments of industry and commerce, the question of credit has become one of great importance. In consequence of this, the banks, which control credit, are able to play a far more significant rôle than they were a century or even fifty years ago. By raising or lowering the discount rate, they can depress industry or stimulate new enterprise; they can strike a heavy blow at a country, or render it incalculable service. Outside Great Britain, the banks have frequently a direct interest in industrial enterprises, and have a voice in their management. In this country, where the banks are more reluctant to participate in industrial concerns, they are none the less, in their capacity as debenture-holders, able to compel a business (e.g. a cotton firm) to carry on when from other points of view it would be more advantageous to

close down. The power of finance has grown with the growth of capitalism.

If we agree (and there seems no dispute on this point) that the economic and industrial system as we know it to-day may be rightly called Capitalistic, and that it was also Capitalistic in the early nineteenth century, in spite of the radical differences to which the preceding pages have called attention, it remains to attempt to discover what are the features which distinguish Capitalism in its various forms from any other form of economic organisation. To define Capitalism has proved almost as impossible as to define Socialism. It has been defined from the moral point of view by Catholics as well as by Marxists as including the exploitation of the workers; it has been defined from the economic point of view in different ways according as one or other of the different elements which enter into its composition has been regarded as essential, and other elements as accidental. To avoid an academic discussion of no practical value, it will suffice here to give a description of Capitalism rather than a strict logical definition. In the first place, it should be noted that an economic system may fairly be styled, for practical purposes, "capitalist" even though within that system there is a number of concerns which are run on lines which are not really capitalist. The fact that many of our municipalities own their own trams, or that the State owns the telephone system in this country, does not alter the fact that Great Britain is *predominantly* a capitalist country; just as the fact that Lenin permitted some private trading in Russia did not alter the fact that Russia was predominantly a socialist country, and could be correctly referred to as socialist without adding the qualification "modified by private

trading." In the second place, the phrase "economic system" means nothing more than the general method of owning and managing capital, producing goods and services, distributing them in the community, and rewarding the producers. If that method is predominantly capitalist in character, we may term the economic system "capitalist." This brings us back to our question: What are the characteristics which distinguish Capitalism from other systems?

Clearly, Capitalism, as used in common parlance, involves much more than that producers are making use of capital. A peasant proprietor employs capital when he digs his plot of land and plants seeds in it; but this is not sufficient to make him a capitalist. If, however, a landowner employs wage-labourers to till his land in order that he may market the produce (if possible) at a profit, there would be little hesitation in calling him a capitalist. Several questions may now be asked. Would he be a capitalist if he employed slaves instead of wage-labourers, if he produced, not for the market, but for consumption by himself and his dependents? and so on. If the State employs wage-labourers and sells the product (e.g., manufactured tobacco) at a profit, is this capitalism or socialism? Does it make any difference to the answer if the workers employed by the State are not its own nationals (e.g., if it owns oil-wells in a foreign country and employs the nationals of that country)? These questions are of great interest to theoretical economics, but we may disregard them here. Our main purpose for the moment is to show the features of similarity between capitalism in Great Britain a century ago and to-day, and for this purpose an empirical examination will suffice. At

both periods, then, we find a large proportion of the population employed in industry and agriculture, and receiving wages in exchange for their labour. At neither period do we find that any of the population are *legally* slaves or serfs. At both periods we find that the wage-earners *as such* are not the owners, or part-owners, of the fixed capital (the means of production) of which they make use in the course of their labour. In so far as they do own this fixed capital, it is because they have invested money in it, as any other individual might do, and in no way in virtue of their status as wage-earners. (I am speaking, as I said above, of the *predominant* features of the economic system, and omitting all reference to sporadic examples of co-partnership and the like.) At both periods, again, we find that the control of production and the economic system generally is in the hands of a relatively small minority, even when the ownership of capital is fairly widely distributed by means of the joint-stock system. This control of the means of production gives to those who possess it considerable control over the lives and destinies of the wage-earners, since by refusing employment they can deprive the latter of access to the means of production and thus deprive them of a livelihood. Finally, at both periods the economic system is run primarily in order that the owners of the means of production may receive more than they have put into it, viz., net profit.

When it was said above that under capitalism the control of production is in the hands of a relatively small minority, it was taken as obvious that that minority does not consist of officials of the State acting in that capacity (though of course many cases are on record in which officials of the State have

passed into the ranks of those who control our economic system, not without important social consequences; e.g., Lord Birkenhead, Lord Reading, Mr. R. McKenna, Sir Robert Horne, and many others). This, however, seems to be the place to say a word about the intervention of the State in our economic system.

The pressure of facts was soon too much for the *laissez-faire* theory of masterly inactivity on the part of the State current at the turn of the eighteenth century, and the nineteenth and twentieth centuries have seen a growing body of social legislation intended to remedy the proved defects of unregulated capitalism. The Factory Acts are now so numerous that it is high time they were codified; trade boards have been set up for sweated industries in which the workers, being unorganised, were unable to defend themselves, and "good" employers found themselves undercut by unscrupulous competitors; provisions have been made for the insurance of workers against industrial accidents; a vast network of social insurance has grown up, against the contingencies of old age, sickness and unemployment; and the weapon of taxation has been deliberately adopted as a method of remedying the extraordinary maldistribution of the national wealth, to which allusion will be made later. Furthermore, the Central Government and Local Authorities have stepped into the industrial field, and now own a vast amount of property and revenue-earning plant.

## CHAPTER II.

### DEFECTS AND DANGERS.

If the attempt made in the preceding pages has been successful, the reader has now before his mind a fairly correct picture of capitalism as it has been and capitalism as it is to-day. There can be no doubt that it has brought with it many material advantages, not merely for the capitalists but also for the workers. To-day the question that is agitating the minds of thinking people is, can it endure, at any rate in its present form. Is it played out economically? Does Big Business inevitably lead in the end to little business, with the scourge of unemployment, glutted warehouses and no markets, and a starving population in the midst of plenty? Can capitalism be reconciled with the moral judgments of the community? Do not its abuses outweigh the benefits it has brought us? Can the admitted defects, economic and moral, of the system be remedied, or must it be swept away altogether as slavery was swept away in Europe and America? It is with the purpose of summarising some of the answers to these questions which have been given recently that this book has been written.

To give a complete account of the complaints and charges which have been directed against capitalism would require a volume; perhaps several volumes. Here only the outstanding ones will be enumerated. From the economic standpoint, it is said that capitalism contains within itself the seeds of its own destruction. It leads to overproduction, it is said, and thus to business-crises and unemployment. Some would argue that this tendency to over-

production is due to the fact that the lust for gain drives capitalists to increase both their turn-over and the scale on which they produce, irrespective of what other capitalists are doing, so that capitalism is really economic anarchy. Others prefer to insist on under-consumption: capitalism tends to trip itself up over its own feet, because it does not preserve the necessary balance between what is invested in capital goods and what is spent in buying the finished product, or because it has not learned to manage currency and credit in such a way as to make demand effective. Still others stress the problem of the machine; the problem, that is, arising from the fact that the progress of scientific invention applied to machine-production throws more and more men out of work, and thus deprives them of the economic power to buy what the machines are producing.

From the moral and social point of view, grave alarm is felt (and rightly felt) at the growing concentration of economic power in the hands of a minority. In his recent encyclical on the Social Order Pope Pius XI has referred to this as "the characteristic note of the modern economic order". The battle for political liberty has been fought and won and lost again time after time. The battle for economic liberty is not between individuals and the State, nor is it another name for class-warfare; it is a battle in which the State must defend itself and its independence from the domination of industrial, commercial and financial groups, sometimes its own nationals, sometimes foreigners, and in which the vast majority of citizens are confronted with an economic power as tremendous as it is secret. The methods of defence are not those required to resist a political tyrant, for to fight a

combine is rather like fighting something in a cloud. Not violence and arms are required, but intelligence and a clear air.

While one may well deny the Marxist thesis that the key to the puzzle of social evolution is the class-struggle, regarded as an inevitable phenomenon so long as the institution of private property exists, no one who knows the facts would venture to deny that between workers and their employers there is normally (in large-scale industry) a chill indifference to each other's welfare which only too easily flares up into a faction-fight involving the use of the industrial bludgeons of strikes and lock-outs, and even the use of guns and other weapons. Pitched battles have taken place in the coal-fields of Pennsylvania between miners and armed representatives of the owners. In discussing the New York clothing strike of 1931, the correspondent of *The Times*, July 30, 1931, wrote :

The second object (of the strike) is to oppose those employers who employ gangsters and gunmen against union officials and labourers. In many industries in New York, Chicago, and elsewhere alliances of this kind are common. Sometimes employers trying to operate an "open shop" [i.e., to exclude trade unionists from their employment] hire strike-breakers, gunmen, and "strong-arm men" from the gang leaders, who have plenty at their disposal. In other cases "racketeering" gangs take the initiative in intimidating employers with "open shops" into giving the gang a contract at exorbitant rates to "protect" such establishments from the unions. In many industries, the unions themselves hire mercenaries in the same way for use against employers or against rival unions.

Whence comes this hostility? Largely from the fact that in large-scale industry the relations



between employers and workers are not those of one person with another, but of a soulless and amoral company or "corporation" dealing with the sellers of a commercial commodity known as "labour." Each tries to secure the best bargain for himself that his ingenuity or power can secure. The worker feels no obligation to do more for the purchaser of his labour-power than he is forced to do by the pace of the machine at which he works, by the surveillance of a foreman, or by his own desire for money if he is paid at piece-rates. The employer feels no obligation to do more for his workers than pay what the trade-unions have succeeded in securing as the standard rate, or what he thinks will bring the cost of labour (which is of course not the same as wages) down to a minimum, so that profits may be at a maximum. It is useless to pretend that there will be anything but hostility between the partners in industry so long as this mentality persists. It is fostered by the joint-stock system, with its millions of "absentee shareholders" who have never seen either the fixed capital they own or the workmen they (indirectly) employ. It is fostered too by the wage-system, which refuses to accord to the workers any claim on industry beyond the market-price of their labour-power. It is fostered by the fact that the great majority of the workers are a propertyless proletariat.

The last point brings us to another complaint against capitalism, that wherever it prevails it leads to a gross maldistribution of wealth, the lion's share of the national capital and the national income going to a tiny minority of the community. The figures put forward by Professor Henry Clay (*The Problem of Industrial Relations*) have been so often

quoted that one hesitates to quote them again. But they are still unknown to many, and for that reason may be briefly summarised. He concluded, after a careful investigation, that in 1920-21 under eighteen million people in England and Wales owned property, but so far as three-quarters of these people were concerned, they owned less than £100 each. As to the remaining quarter, they owned about nine-tenths of the property. Similarly startling figures have been arrived at by other competent investigators. As Professor Clay points out, a hundred years ago the distribution of property was very different. The change has come about owing to the destruction of the large class of small land-owners, and to the growth of large-scale industry. "Little masters in industry, small merchants and shopkeepers in commerce, carters in transport, private family banks in finance, all implied a wide distribution of the ownership of capital" (Clay, *op. cit.* p. 262).

Maldistribution to such a degree as this is a source of grave social discontent. A very large proportion of our population has no private property worth mentioning, and consequently lacks the sense of security which is so necessary to a contented life. On the other hand, those who hold a great deal of property hold it, for the most part, in the form of stocks and shares. This preponderance of Stock Exchange securities among property-forms is, as Professor Clay has remarked, a recent development. A century ago, land was a far more important form of property than stocks, shares, and bonds, and carried with it certain definite responsibilities for management and oversight. But now ownership and management of property have been divorced by the custom of investment in

joint-stock companies, with the real social peril involved in such a divorce and with a sacrifice of one of the benefits of private property, viz., that its administration stimulates and develops the faculties and the foresight of its owner. The social peril just referred to arises from two facts; first, that property-owners lose all sense of responsibility to the community for the manner in which their property is used, since they have no practicable way of efficiently supervising widely scattered investments, and second, that the socially useful institution of private property is endangered when it takes a form in which its confiscation by the State is relatively easy. The growth of the joint-stock system as an integral element in capitalism and the growth of maldistribution of wealth are inextricably bound up with each other.

While on the subject of the joint-stock system, it is worth while mentioning grievances which have been felt against it quite apart from the points just emphasised. Accusations are brought against the balance sheets and profit-and-loss accounts which profess to give shareholders a true picture of the state of their industry. *Britain's Industrial Future* maintains that balance sheets give inadequate and misleading information, which facilitates the continuance of gross mismanagement of the company. This has the further disadvantage of placing a premium on "inside information." "The honest financier spends his time in getting hold of true information to which he is not entitled; and the less honest [let us admire the restraint of this term] in spreading false information. . . Thus the actual proprietors of a concern are frequently at a serious disadvantage with outsiders who can obtain access to inside information. . . This scandal is graver

than has been admitted hitherto." With regard to the directors of companies; it is asserted that there is a growing practice of directors dealing in the shares of their own companies; and that in practice they are not elected by the shareholders but are co-opted by the Board of Directors itself. It is further alleged that they come to look upon themselves as entitled to hold office for life, no matter how long that life may be, and to be succeeded by their sons. In a caustic phrase, the Liberal Report says, "Directorships are the pocket-boroughs of to-day."

In this connection, some remarks of Mr. Justice Wright in his summing-up at the trial of the chairman of the Royal Steam Packet Company in July 1931 deserve to be recorded. He said that one could not help wondering whether those who managed big companies did not sometimes forget that the directors of a company were the agents and trustees of the shareholders, and that, subject to ordinary commercial necessities, they owed them full information. The joint-stock system, then, threatens us with the loss of the sense of responsibility for the ownership of property, and with the loss of the sense of responsibility even towards the owners (how much more towards the community?) on the part of those who control that property. That the joint-stock system fosters speculation and gambling is too patent to need discussion. The typical property-owner of to-day is fast limiting his activities to a careful day-by-day scrutiny of the City column of his daily paper, so that he may buy or sell his investments in order to make a profit as large and as often as possible. It is hardly surprising that to some this appears as a degradation of property.

Profit is undoubtedly the stimulus which makes the wheels of our economic system revolve. Nor can one reasonably object to this if the profit is not sought in ways that do harm to other individuals or to the community at large, and if the motive of profit does not become the mainspring of the profit-seeker's life. But concurrently with a great deal of talk about Service and Devotion to the Public Weal, there has arisen a feverish hunt after profit, with little or no heed as to how the profit is gained or at what cost to others. Alternate business crises and booms, manipulation of the markets with consequent failures and "crashes," international complications leading to wild fluctuations in the foreign exchanges and discount-rates, have taught the industrialist and the commercial man that he is here to-day and gone to-morrow. If he wants to make his profits, he must seize opportunity with both hands; if he wants to be financially secure, he must aim at "getting rich quick." Thus we find under our present economic system a breathless hunt for wealth as repugnant to the true dignity of human life as slavery itself. Indeed, we have a new slavery—slavery to the economic machine.

From the standpoint of the wage-earner, his reasonable complaints may be reduced to three. He finds only too often that even when in full work he cannot earn enough to provide a decent maintenance for himself and his family, and the assurances he receives from certain quarters that industry cannot possibly pay him more without ruin leave him unconvinced and suspicious, because he wants proofs and not mere assertions. He finds too that often, without any fault on his part, he is thrown out of work by some trade crisis or depression, and he feels that those who control the

economic system ought to have discovered some method by this time of stabilising production on which he depends for his livelihood as a worker. He cannot start producing independently, for he has been trained to be a wheel in large-scale industry. He cannot dig, for there is a surfeit of agricultural labourers and he has neither the capital to set up as a small landowner nor the experience to succeed if he did. To beg he is ashamed. There is nothing for him but the workhouse or (under certain conditions) unemployment relief, the latter having received the stigma of pauperism by its journalistic title of "the dole." These two complaints have been summarised as insufficiency and insecurity. Finally, and closely connected with these two grievances, is the complaint that the wage-earner has no real status in industry. He does not understand the benefits of that progress which, according to our Victorian thinkers, consists in passing from status to contract. He realises, dimly perhaps, that to have a recognised status in the industrial system, with rights and duties attached, would in all probability give him greater sufficiency, and certainly greater security, and would be more worthy of his human personality than to be merely a party to a contract for the sale of labour-power.

## CHAPTER III.

### DISTRIBUTIST CRITICS.

As we shall see, it is perfectly possible to admit the truth of these complaints against our economic system, to desire most earnestly that the grounds for them be removed, and yet to believe that fundamentally the system is workable and better than any alternative system which can be devised. Mr. J. M. Keynes, for example, says, "I think that Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable." (*The End of Laissez-Faire.*) This is also the attitude of Mr. Hartley Withers (*The Case for Capitalism*), of the authors of *Britain's Industrial Future*, and of many others. Of course this leaves open the question, what are the changes in the present system which would so fundamentally modify it that it would cease to be the same system. The answer to that question would vary with different people according to their opinions as to the essence of Capitalism. Certainly it would not be the same system if all the means of production were taken over by the State, for then we should have a form of collectivism; nor if the wage-system were abolished and co-partnership substituted, or the wage-earners legally enslaved; nor if production for a market on a profit basis were replaced by production for the producer's own use.

There are those who believe that the system ought to be changed in one of these ways, or that it will inevitably be so changed by the force of things. Mr. Belloz, in *The Servile State*, a book which by

general admission well deserves the interest and attention it created on its appearance and still arouses, maintains with all the power of his logical intellect and masterly prose that the Servile State is upon us, and that Capitalism is toppling to its fall. Capitalism as he diagnoses it is essentially unstable, for it involves a double strain; a moral strain "between the realities of Capitalist society and the moral basis of our laws and traditions," (the latter being a presupposition that the ownership of private property is normal to all our politically free citizens, the former being that in fact private property and the social power it gives are in the hands of relatively few in the community); and an economic strain which "consists in the fact that Capitalism destroys security," since it leads to the exploitation of the propertyless proletariat, and, in its perfect form, to the anarchy of production resulting from free competition. Being unstable, Capitalism cannot endure; it is passing into something else under our eyes. *Theoretically*, it might pass into distributism, in which property is more widely distributed "until that institution shall become the mark of the whole State, and until free citizens are normally found to be possessors of capital or land or both"; or it might pass into collectivism; or into the Servile State. *Practically*, the only alternative to distributism is the Servile State, because collectivism requires either the confiscation of private property (which in practice would prove impracticable) or "buying-out" private owners (which, he holds, is equally impracticable if attempted on a grand scale). The Servile State is one in which those who do not own productive property are legally compelled to labour for the benefit of those who do; so that socially



and legally the population is divided into two classes, one class economically and politically free, and securely confirmed in the ownership of the means of production, the other class economically and politically unfree, but secured in a certain minimum of well-being. To this Servile State we are tending because it appeals to the capitalist, to the frustrated collectivist, and to the proletariat in search of sufficiency and security. In confirmation of this opinion Mr. Belloc adduces certain modern legislative measures, viz., the establishment of employers' liability, which lays certain obligations upon employers as such, and confers certain legal rights upon employees as such; the establishment of social insurance; proposals for compulsory arbitration and for a legal minimum wage (which involves, he maintains, compulsory labour). As to the Distributist State, Mr. Belloc expressly says that it is not his purpose to show how it might be established, and indeed he depicts the difficulties in the way of its establishment so emphatically that one is left doubting whether distributism is a practicable solution at all, at least in Great Britain. In Ireland he finds it in existence, and he approves the French for rejecting social insurance as an example of the "universal and virile contempt" there felt for the Servile State.\*

Here, then, we have one opinion about the future of Capitalism. It is practically certain to continue its metamorphosis into the Servile State, which will replace instability by stability, contract by status, insecurity by security, insufficiency of livelihood for the proletariat by sufficiency, but which

\* The French have changed their minds about social insurance. In 1928 they passed a law to provide it on a large scale. This law came into operation in 1930.

will rivet upon the necks of the workers the yoke of compulsory labour and secure the capitalist class in its position of economic domination. That, in prospect, such a State would be extremely pleasing to Big Business is quite possible; and that many of the workers would at first welcome it as a glorious change from the present situation is probable. But it seems extremely doubtful whether it would prove a stable State, or even a prosperous one. The workers are quite intelligent enough to realise their position as mere helots, with no share in the process of production beyond that of making the wheels go round, no voice in its management, no right to participate in profits. Would they be content with this position—even if they saw that their particular industry was being inefficiently run? And, since many of the managers of industry do not belong to the capitalist-class but are themselves hired workers (to be ranked in the Servile State in the non-free class) why should they put themselves out to run industry efficiently? Compulsory labour is notoriously inefficient. If industry is not efficiently run (and, indeed, a good deal more efficiently than at present), how is the Servile State to guarantee sufficiency and security to the proletariat? And if it cannot do that, how can it endure, seeing that its *raison d'être* was to guarantee these? Further difficulties occur to the mind. For instance, the politically unfree class has presumably no vote; the franchise has been withdrawn from it. Does it not seem highly improbable that this could be done without a revolution? Would the workers peacefully agree to establish the capitalists in a permanent position of economic domination, even in return for a *promise* of sufficiency and security—a promise which might be broken or, as said, might prove

beyond achievement? Would collectivists themselves be ready to come to terms with the capitalists on the basis of a Servile State, seeing that this would be to commit political suicide? It is hard to see how the Servile State would in practice be any more stable than Capitalism; it is equally hard to see how it could be introduced into Great Britain.

Mr. Belloc is careful to say that he is passing no verdict upon the Servile State, and yet one feels that he would strongly object to it, an impression confirmed by his words about France quoted above. If one is not unwittingly doing him an injustice, the ground of his objection is that he dislikes the whole notion of the workers having a definite status, and prefers that their position in industry should be determined solely by contract. Personally, I too should strongly object to the Servile State; but not because it would give the workers a definite status. I believe that the substitution of contract for status is not to the advantage of society. I believe that it leads to social disintegration, though I do not deny that a society based on status may suffer from the evils which follow on the neglect of the responsibilities attached to status, just as a society based on *laissez-faire* and free competition (the corollary of free contract) may suffer from the evils resulting from the abuse of contractual power. In fact, a combination of status and contract is quite possible, as will be seen later. The real moral ground for objecting to the Servile State is that it would place uncontrolled power in the hands of a small minority not merely of the population, but of the capitalists; for in the Servile State there would be many capitalists without any power, unless the existing distinction between the

owners of capital and the administrators of capital, before described, were in some way (but how?) abolished. Apparently the paradoxical situation would arise that many capitalists would be proletarians.

But it is not necessary to press the matter further, for the intention of this book is to inform the reader of modern views about the future of capitalism and to stimulate him to reflect on them, rather than to attempt a lengthy critique of those views. I cannot forbear remarking, however, that Mr. Belloc's interpretation of recent social legislation for the protection of the workers seems to me mistaken. It is noteworthy that the Christian Trade Union International (largely Catholic) strongly favours social insurance; and that the French law of 1928, referred to above, was actively supported by the leading Catholic social organisations in France, which appeal to the encyclical *Rerum Novarum* as confirming their attitude.

Having thus indicated certain points of difference from Mr. Belloc, it must be said that on his fundamental thesis of the necessity for a wider distribution of property every Catholic, indeed everyone who is not a socialist, must surely be in entire agreement with him. The question is, how is that redistribution to be effected? Mr. Belloc has indicated the difficulties in the way. We must now turn to another writer who carries the matter somewhat further.

Commander Shove has embodied a striking simile in the title of his book, *The Fairy-Ring of Commerce*. He maintains that to-day we are, economically, in the hands of the merchant-class, which employs the real producers, i.e., the technical staff, works managers, etc. As a class, the

merchants are "necessarily actuated, in the long run, by avarice solely." Their chief object is to increase their profits as rapidly as possible, and this leads them to speed up production and to reinvest their profits in industry in order to draw compound interest. It also leads them to strive to keep down the cost of food to their workers, lest the wage-bill rise with a rise in the cost of living. Their difficulty is that the output of agricultural produce, subject as it is to the limits imposed by nature and the seasons, tends to be outstripped by the output of manufactured articles, with the result that, relatively to commodities, food tends to rise in price. How can the merchants check this tendency? They will not slow down industrial production, for that would mean reducing the rate of profit. They must discover new sources of food supply from overseas; and thus in practice we find the corn laws repealed, to the ruin of British agriculture. To pay for the imported food, as well as to increase turnover, British manufactures are exported abroad. The inevitable result is that the countries thus developed as markets for British products become themselves industrialised, and set up as manufacturers themselves. They are in a position, at least for a time, to compete advantageously with British manufacturers, on account of their greater proximity to the sources of raw materials and food. The consequence is clear in the decay of the staple industries at the present time in Great Britain. We are being forced into the position of producing commodities of secondary importance (motor-cars, artificial silk, gramophones), in which foreign competition is less deadly. But the trouble is that these industries are the first to suffer when one of the recurrent world-depressions comes; and then

what does the future offer but the utter and complete collapse of industrialism? That system is like the fungus which causes those rings of bright lush grass in the fields which children call "fairy-rings"; the ring itself is rich, it is spreading ever wider, and as it spreads it encloses a wider and wider area; but it is an area that is impoverished by the loss of its nitrates to the parasitic ring. Similarly industrialism leads to the impoverishment of every country on which it fastens. When industrialism has collapsed (and Commander Shove believes that in Great Britain the collapse is imminent) what is the population to do? Willy-nilly it must return to the primaeval industry, agriculture, and to the Peasant State. The Peasant State is defined to be "a society, settled upon a limited tract of land and entirely supported by crops raised therefrom." This, in Commander Shove's opinion, is the only sound social organisation; so his thesis, pessimistic in appearance, is really optimistic, since he holds that the coming of the Peasant State cannot long be delayed. On the other hand, he perceives that the period of transition from industrialism to the Peasant State will be painful, and he urges his readers to set to work to ease the passing of the present system. With his suggestions for making the period of transition as little disastrous as possible we are not really concerned here, for we are limiting ourselves to views about the future of capitalism; but, in summary, Commander Shove is more than sceptical of any assistance from the government, and looks to individual action in preference to public action. He makes certain suggestions about encouraging small agricultural producers, becoming a small owner oneself if possible, and investing in land.

He admits that self-sacrifice is called for, and he looks to the "public school class" to make this sacrifice. Finally, he is convinced that even the Peasant State will not be stable unless it is founded on the basis of Catholic Christianity.

There is so much of truth in Commander Shove's analysis of industrialism, and so much that is attractive and important in his appeal for agriculture, that one hesitates to offer any criticism of his thesis. Yet the issue is so grave, involving as it does the attitude which one should adopt to industrialism and to the Peasant State, that one cannot shirk the duty to offer a few words of comment. To begin with the Peasant State. Is it really practicable for Great Britain to become a "society, settled upon a limited tract of land, and entirely supported by crops raised therefrom"? The final report of the Balfour Committee on Industry and Trade contains the following passage:

It must be regarded as axiomatic that Great Britain is, and, apart from wholesale emigration, must remain, a country necessarily dependent on overseas supplies for the means of feeding and employing its population. For a community thus situated, the idea of self-sufficiency is wholly inappropriate.

Wholesale emigration is out of the question at present, owing to the exclusion or rigid limitation of immigrants by the only countries in which British emigrants would or could settle, and it is likely to remain so for a longer time than Commander Shove allots to the continued existence of industrialism in Great Britain. We must then face the problem of feeding and employing a population numbering over forty millions; or, to allow for the fall in the birth-rate in the next few years, thirty-five millions. Commander Shove believes that the

population of a Peasant State would be much lower, and that it is the conditions of modern industrialism which cause the population to tend to increase excessively. This is at least a disputable proposition. Miss Buer (*Health, Wealth and Population*) concludes, after a careful investigation, that the rise in the number of our population, coincident with the spread of industrialism, was due to a diminished death-rate, attributable to improved medical science and sanitary conditions. It is only quite recently that Russia has made any attempt to become an industrial nation, yet its population grows very rapidly indeed; no one has suggested that this growth is due to the Five Year Plan. It seems true that peasant families are usually larger than urban families; and Dr. Halliday Sutherland (after Doubleday) holds that fertility increases as the standard of life falls. No one, surely, would wish to see our population kept down by a rise in the death-rate, yet that appears to be the only *natural* way in which it would be kept down in a Peasant State with its standard of life admittedly lower than at present. As to *unnatural* methods, it is amongst an industrialised population that they spread, and this is no doubt the key to our falling population to-day.

Supposing, however, that we could support our population entirely on the crops raised in Great Britain, would this mean the disappearance of industrialism? Surely only if there were no production for a national or international market, since the merchant appears when the local market extends over a wider area, and the merchant brings industrialism. But can we (indeed, ought we) thus to eliminate trade with distant markets? The bonds of commerce have their part to play in uniting



humanity together; and to aim at self-sufficiency is to strike at charity and good-will; it is hard to see how it can be a Christian ideal. It is just as hard to see how it can be an economic ideal for Great Britain, for there is much raw material which we need from abroad, and which we pay for by our exports of manufactured articles, transport, services, etc. What place is there for this essential foreign trade in the concept of the Peasant State?

Another question may also be raised: Would we be allowed to pass into a Peasant State, and to abandon industrialism? Frankly, it appears to me (as to others) that the danger at the moment is not that of industrialism breaking down in this country, but of the machinery passing out of our hands into those of the United States. That country has already invested much capital over here, and it is not probable that she would tolerate the jettisoning of industrialism. If we are to guess about the future, one might hazard the suggestion that the picture of the Peasant State is less plausible than that of American capitalism controlling a British proletariat, *quod Deus avertat*. An equally unpleasant picture is that of a British Peasant State, founded on Catholic Christianity (if one is optimistic enough to believe in the possibility of such a mass conversion to Catholicism), being overwhelmed by the nearest approach to the Servile State in modern times, Soviet Russia.

These comments on Commander Shove's vision of the future of capitalism must not be taken as denying that there is much force in his criticism of industrialism. Our industrialists *have* aimed at cheap food for the masses, with disastrous results to British agriculture; they *have* aimed consistently at expanding the market in order to increase profits,

(though it is too much to say that they are "inevitably actuated by avarice," for avarice is an *inordinate* desire for gain); the result, hastened by the War, *has* been to develop foreign competition. This is precisely the situation with which we are now confronted, and to remedy which so many measures are being proposed in various quarters, from a policy of protection to one of the international abolition of all tariff barriers, from the "quota" system to international agreement between producers. Happily it does not fall within the scope of this book to discuss these measures.

## CHAPTER IV.

### THE SOCIALIST ALTERNATIVE.

At the opposite pole from the distributist theories which we have been discussing stand the socialists, ancient and modern, from Mr. G. B. Shaw to the Bolsheviks. It is hardly necessary to say that no attempt will be made here to survey the whole field of socialist theories and proposals, with all their thousand and one differences; or to slay again the corpse of collectivism. The latest executioner of that nimble corpse is Mr. G. D. H. Cole (*The Next Ten Years in British Social and Economic Policy*), and as he is one of the most able and influential of the socialist intellectuals of the day he may stand as the spokesman of modern British socialism, to explain the socialist view of the future of Capitalism.

Mr. Cole argues that Capitalism is faced with a dilemma. To increase profits it must produce at constantly lessened costs per unit of product; hence, it aims at improving the efficiency of production by rationalisation. But rationalisation reduces the number of employed workers, and thus reduces the market for the increased product. Capitalism "breaks down because, while it might succeed in improving very greatly the efficiency of production, it is doomed to fail hopelessly in solving the problem of distribution." To attempt to reduce output is merely to increase the difficulty, by further reducing employment and the market. To solve this dilemma "the only possible course for a well-ordered society is to begin with the decision that all shall be employed in useful work and that all shall enjoy the purchasing power wherewith to buy the .

entire product of which their associated labour is capable. . . The purchasing power distributed in society should be measured in accordance with the productive capacity of the community, and not left to depend on the actual production secured by the free play of the forces of supply and demand." Were it not that Mr. Cole is so contemptuous about "currency cranks," one would be tempted to believe that he was adopting here the language of Major Douglas, and was going to urge some scheme of "social credit." But in the paragraph which immediately follows the passage just quoted Mr. Cole appears to indicate that the solution to the dilemma is to be found in socialism only; for he says, "I do not pretend that it is easy to work out this principle in practice, or that to make the transition from a capitalist to a socialist economy is an easy task."

Before going on to describe Mr. Cole's picture of the socialistic future, let me say that this "dilemma" of technological unemployment (unemployment resulting from the development of machine-production) would, it seems, face any form of economic organisation which was not prepared to pass a self-denying ordinance against technological progress. The machine, as it develops and takes over new and more complicated tasks, will always tend to displace human labour, independently of whether the machine is owned by the community or by individuals. This is only another way of stating the problem of unemployment to which rationalisation gives rise, and which is at present the subject of anxious thought among all interested in the welfare of the workers. The orthodox economist assures us that "in the long run" all will be well, and that labour which has

proved to be superfluous in one industry will be absorbed into others, and he bases his argument on the commonly admitted statement that general overproduction is impossible, seeing that there is no prospect of human desires for commodities being satiated. Not all are happy about this answer, for the run may be very long indeed, and in the meantime what is to happen to displaced workers? Without entering upon a discussion which would take us far afield, it may be said that the present scare in certain quarters about the machine and its titanic powers of production seems comparable with the scare a century ago, fostered by Malthus, about the tendency to under-production in agriculture. We have heard a good deal (too much, indeed) about the torrent of babies entering the world; now some would make our flesh creep at the thought of the torrent of commodities which is being poured forth by the machines. There is something to be said for the belief that the babies will find the commodities very useful. Whether our methods of enabling them to obtain command of the commodities are satisfactory is another question, to be discussed later.

Socialism, says Mr. Cole, is the solution of what he considers to be "the capitalist dilemma." But socialism for him is not the old-fashioned collectivism; this he holds to have been killed by Guild Socialism, of which he was at one time the protagonist. What he proposes, we shall see in a moment, but first it is advisable to point out that Mr. Cole is primarily concerned not with complete socialism, but with the steps to be taken towards it in the next ten years. Old-fashioned socialists used to draw pictures of socialist society without troubling too much to explain how socialism was

to come into existence; but the Marxists changed all that, distinguishing between the complete phase of socialism and the transitional stage, between the old economic system and the new. Mr. Cole, desiring to guide the steps of a socialist government, follows their example, and is chiefly anxious to describe the best methods to adopt in the transitional stage. Nevertheless, by careful search through his closely-packed book, one may arrive at some idea of the socialist ideal, though he expressly says that the eventual form of socialism cannot be foreseen. He clearly contemplates that under socialism the State will own the coal-mines and the railways; that the right of inheritance will be practically abolished; and that the national debt will have been wiped out by a drastic capital levy. There will, apparently, be no private ownership of any of the means of production which require for their operation the employment of workers; for he says that while socialists do not wish to abolish private property they do wish to limit it drastically in amount, and to prevent owners using their property in order to control the vital means of production and the labour of others.

The general object of socialists, he affirms, is not to nationalise (he prefers the word "socialise") this or that particular industry, but the control and direction of the economic life of the community. Though he admits that this will involve the transference of a large number of enterprises now in private hands to various forms of public ownership and control, he denies that it involves universal public ownership, or a uniform system of public control. He would socialise at once the Bank of England, leaving the shareholders with ownership but without control, the latter being transferred

to a commission of experts. The State should at once take over the ownership of the land, urban and rural, paying compensation for it, and of all minerals (apparently without compensation); but in the main the occupiers of land would be left in possession, and the coal industry would be for the time left in the hands of private owners. The socialisation of the railways would take the form of leaving the shareholders for the time as owners, while taking the appointment of directors into the hands of the State. Manufacturing industry should be put under the control of State-appointed expert commissioners; the shareholders might be left undisturbed in their ownership, or they might be given State bonds entitling them a share in the proceeds of the socialised undertaking. This latter is the general form in which compensation should be paid; but it is important to notice that Mr. Cole calls compensation "an act of injustice," and his motive for proposing it can only be expediency. In any case, he intends that the State should recover at least a large part of it by the drastic and progressive taxation of inheritance, and by more severe taxation of investment-income.

Other and less fundamental proposals made by Mr. Cole can be more conveniently mentioned later, and I am conscious that my attempt to summarise his strictly socialist proposals does little justice to the detail with which he surrounds them, though I trust the outline I have given is as accurate as an outline can be. In a sentence, I understand Mr. Cole to aim at introducing State control of all large-scale industry without delay, and State ownership of the means of production in the future, as a natural development of its policy of taxation. The "inevitability of gradualness" assumes the

form of the irresistibility of encroachment.

As I have already declined to embark here on a full-dress debate on socialism, I shall limit myself to some very brief comments on Mr. Cole's scheme. Since his professed object is to obtain for the State the control and direction of the economic life of the community (an object which is not peculiarly socialist), and since he believes that this can be achieved by depriving shareholders of their control and appointing expert commissioners to supervise industries, it is difficult to attribute his advocacy of State ownership of the means of production to anything but a doctrinaire bias against private ownership of capital. But the arguments in favour of a natural right to own productive goods are so convincing,\* and the arguments against State ownership of all the means of production are so strong, that one wonders how this bias can still persist. As to his plan for compensation, Mr. Belloc's remarks in *The Servile State* are very *à propos*; property-owners will not be hoodwinked by a scheme for compensating them with one hand and confiscating the compensation by taxation with the other. They will resist as strongly as if confiscation were openly advocated. It need hardly be said that Mr. Cole's opinion that compensation is an act of injustice, assuming as it does that the private ownership of capital is unjust, must be rejected by all who hold, as Catholics do, that there is a natural right to own productive goods. Finally, Mr. Cole's plan for the management of industry by State-appointed commissioners is more specious than practicable. He is far too shrewd to imagine that these commissioners, who must be experts in

\* They are briefly outlined in my *Catholic Social Principles* (Burns, Oates & Washbourne), Ch. 4.



knowledge of the industry they control, can be chosen from the ranks of Civil Servants. *They can only be found amongst the existing leaders of the industry.* Can we conceive the cotton industry, to take an example of which Mr. Cole is fond, acquiescing in a scheme to put it under the control of a small minority of the leaders of the industry, appointed by the government? No one who knows anything of the recent history of the efforts to reorganise the industry, whether by voluntary control or by State control, will reply in the affirmative. The same is true of the coal industry, and of every other industry of any size and importance, and not least of agriculture. The impracticability of trying to force an unwelcome control upon a resentful industry, doubly unwelcome if its impartiality between various concerns is suspected (as it would be if in the hands of a minority of the leaders of the industry), is patent. The whole plan reminds one of Mr. Belloc's prophecy that socialism inclines to confirm Big Business in its present position of minority capitalist control by giving the controllers powers of legal compulsion.

## CHAPTER V.

### SUGGESTIONS FOR REFORM.

Now that we have reviewed the opinions about the future of capitalism held by distributist writers and by a representative modern socialist, it is time to consider what reforms of the present system are proposed by those who hold that essentially it is sound enough, but that it has many defects which should be remedied. As already mentioned, for this purpose the report of the Liberal Industrial Inquiry, *Britain's Industrial Future*, will be used. It is true that it is the manifesto of a political party, but the views about industry which it puts forward (if we omit the question of tariffs) are common enough amongst moderate reformers of various shades of political opinion. Needless to say, its utilisation as a document here does not imply that the present writer is a supporter of the Liberal Party. Party-politics have no place in a detached discussion, such as this book aims at providing, of the future of capitalism. This being premised, it may be said that *Britain's Industrial Future* contains a mass of well-digested information and of enlightened criticism worthy of those who assisted in the inquiry, amongst whom were economists of the calibre of Mr. J. M. Keynes, Mr. D. H. Robertson and Sir W. T. Layton; social reformers in the persons of Mr. B. S. Rowntree and Mr. C. F. G. Masterman; and such well-known authorities as the late Professor Hobhouse and Sir Josiah Stamp. The views of such men as these are not to be dismissed as merely party propaganda.

The report premises that large-scale industry is either under public control because worked by

“ Public Concerns ” (concerns operated or regulated in the public interest, and not aiming at unrestricted private profit), or else in the hands of joint-stock companies. The old question of the expediency of nationalising a particular industry is answered by the statement that Public Concerns are appropriate in undertakings : (i) of great national importance, requiring large capital but not likely, for some reason, to appeal to the ordinary investor ; (ii) in which monopoly is necessary for efficiency ; (iii) in which the principle of fixing or limiting profits has been accepted, so that the shareholders are practically receiving fixed interest on their investment. Existing Public Concerns are run either by the Central Government (e.g., the Post Office, the telephones and telegraphs) or by municipalities (e.g., gas, electricity and water undertakings, housing schemes, buses and trams) directly ; others are run by *ad hoc* bodies, either on a national scale (the British Broadcasting Corporation and Central Electricity Board) or on a local scale (e.g., docks and harbours, water-boards). The report holds that the scope of these Public Concerns will gradually widen ; and in particular it suggests that an industry might well be converted into a Public Concern whenever in that industry it has been found necessary to adopt the principle of limiting or fixing profits, for then the function of the shareholder (which is presumably considered to be that of risk-taking) tends to atrophy. It must be noted that to turn an enterprise into a public concern does not necessarily mean to nationalise it. It is sufficient if the appointment of its directors be under the control of the State, and if residual profits, after payment to the shareholders of the current rate of interest on their investments, be

applied to the strengthening of the enterprise, or (very rarely) to contributing to national or local expenditure. To direct State trading the report is expressly opposed. Concerns which are owned by the community should be managed by an *ad hoc* Board, responsible to the State or the municipality as directors are to their shareholders.

The recommendations about joint-stock companies in which ownership is so widely diffused that the shareholders have no effective control, or which hold something of a monopolistic position (as to other companies the report has little to say), are : (i) that there should be far greater publicity of accounts; (ii) that Directors should retire at seventy; and (iii) that in addition to a Board of Directors there should be a Council of Supervision. This Council would consist of representatives of the shareholders, and "in some cases" of the employees; it would meet regularly to receive reports from the directors, to criticise them, and to supervise the higher appointments, including those of the directors. The Board of Directors would consist of the Chairman, the Managing Directors, and "in some cases" of the most responsible heads of the concern, with perhaps a few outsiders with special qualifications.

The problem of companies having a monopolistic position is dealt with not by recommending an attempt to destroy combines, trust and cartels (an attempt which the experience of the United States shows to be probably doomed to failure), but by accepting the recommendations of the Committee on Trusts. The report proposes that every public company controlling more than (say) fifty per cent. of the output or marketing of a product in Great Britain, and with balance-sheet assets of more than (say) one million pounds, should be registered as a

Public Corporation. All Public Corporations would be subject to inspection by the Board of Trade, which would have power to investigate and report on its profits and other points. If abuses were discovered, or suspected, the Board of Trade would report to a special Trust Tribunal, empowered to make a full inquiry, to insist on the production of books, and to take evidence on oath, and then to publish any facts disclosing injury done to the public by the trust. Thereupon the Board of Trade would make recommendations to Parliament for action to be taken by the State. On this one may make a twofold comment; first, that the procedure seems to be remarkably complicated, and likely to get choked with the red tape which reports about reports carry with them; and second, that if no more action were taken by Parliament when the Board of Trade reported to it than was taken on the report of the Committee of Trusts itself, these proposals contain nothing to alarm the most timid trust magnate. But it is only fair to admit that the problem of the monopolistic combine is a very complicated one, and that the publicity which the adoption of the recommendations of the Committee on Trusts would secure is a necessary preliminary to enlightened and effective action against the abuses of monopoly power.

Akin to the matter of trusts is that of employers' associations, usually formed to regulate output and prices, and to present a united front to trade-unions. These, as has been said, are wrapped in a good deal of secrecy, and *Britain's Industrial Future* recommends that they be registered and that the facts about them be made as public as the facts about trade-unions. On the latter organisations it passes the criticism that they have not yet fully realised that industrial efficiency is of the first

importance to the worker, and complains that the attitude of the trade-union official is that of a watch-dog against the employer. This criticism has much force; the past struggles of the unions to maintain and improve the workers' standard of life have left the tradition that trade-unionism is a weapon of offence and defence, rather than an instrument to facilitate the co-operation of the workers with their employers; nor has the attitude of employers towards the unions always been such as to convince the unions that they might safely disarm. Disarmament is a supreme expression of confidence, but the unions' confidence will not be won so long as they are excluded from full knowledge of the financial facts of industry; this was clearly recognised by the Balfour Committee (*Final Report*, p. 99) when it recommended that the employers should make full disclosure of these facts to the workers or their representatives.

On this point the Liberal Report has some wise words to say. What is needed, it observes, is knowledge about the output of industry, the prices obtained in home and foreign markets, the cost of raw materials, the amount of capital involved and the average rate of interest paid on it, the number of employees, and the total cost of wages in the industry. Amongst the good results of this publicity would be that the unions would have a means of testing assertions that wage-reductions were necessary, or wage-increases impossible, and would therefore be far less likely to enter upon a trial of strength with the employers than they are at present. The collection of relevant facts might well be the business of a State department, but it is obviously a pre-condition of success that employers should realise that publicity of this sort is all to

their advantage, as facilitating the smooth running of the industrial machine.

The adoption of such a measure as was described in the last paragraph would imply that both Capital and Labour were prepared to recognise one another as partners in industry, at least to the extent of joint consultation; and for the purpose of consultation some machinery would have to be set up in industries where it does not already exist. The Whitley scheme of joint industrial councils is approved by the Liberal Report, with the proposal that, under given conditions which it details, a joint industrial council should have the legal power to enforce its decisions throughout the whole of its industry, more especially with regard to minimum rates of wages. It is a matter of common knowledge that this is a point of controversy at present, and worth observation that the Balfour Committee favours compulsory powers for fixing minimum rates for the lowest paid grades of workers, but not for other matters.

On one small point the report differs from the original Whitley scheme; it does not believe that the best method of composing a joint council is to provide for representation of the management and the workers in equal numbers. It holds that every important group of workers, whether by hand or brain, from the heads of the concern downwards, should be represented, more particularly on the Works Councils which it desires to see set up by law in every concern with more than (say) fifty workers. The functions of the Works Councils would be to draw up the working rules of the factory, especially as to the grounds for dismissing a worker; and they should be given the right to be informed of the trading prospects of the concern and of its financial position. Here again we find the Balfour Com-

mittee in partial agreement; it favours Works Councils (though it would have them dissociated from the wider Whitley scheme), but would not like them to be legally compulsory. Mr. Cole, too, advocates Works Councils, but he would have them representative of the workers only, the management being excluded. In his plan of a socialised industry, their function would be to meet in consultation the bodies of expert industrial commissioners already described, and they would have the right to appeal for the commissioners to an Industrial Court presided over by a stipendiary officer. This is a convenient place to mention that Mr. Cole looks forward to trade-unionism losing its "belligerent" character under socialism, and becoming a valuable piece of social machinery to assist the expert commissioners with technical advice.

Family allowances are given a sort of hesitating blessing in *Britain's Industrial Future*. Realising that they must in practice be paid by the State or by the unmarried workers, disliking the former course and aware that the unmarried worker would strongly dislike the latter, the Liberal Report suggests that they might be tried (in the well-known way of "industrial pools") in those industries in which prosperity is increasing, so that there would be no decrease in the wages of the unmarried; and, one must add, no increase either. Mr. Cole is much bolder. He would have family allowances paid out of general taxation, and he estimates the minimum cost to be one hundred million pounds. This is certainly thinking on a grand scale; but whether it is within the region of sublunary politics is another matter. The Balfour Committee is undisguisedly hostile to family allowances, and



prefers a scheme of contributory insurance.

The methods by which capital is invested in industry are attracting increasing attention to-day. The Macmillan Report, for instance, suggests that first-class issuing-houses should vouch for the intrinsic soundness of new issues for home industry as they do for foreign issues. To illustrate how the flow of capital can be diverted into channels which injure both the investor and industry itself, it gives some striking figures. In 1928 the total amount subscribed for capital issues of 284 companies was £117,000,000; in May 1931 the total market value of these issues was £66,000,000, a loss of about 47 per cent. 70 of these companies have been wound up, and the capital of 36 others has no ascertainable value.

Mr. Cole makes a good point when he says it is useless to rely on the law of supply and demand to secure the best investment of the nation's capital at home, or the correct balance between home and foreign investment. He suggests the establishment of a Board of National Investment whose sanction would be necessary to any appeal for capital for use at home or abroad, with power to raise funds for investment in industry. As he notes, *Britain's Industrial Future* contains a somewhat similar proposal, though in the Liberal scheme the powers of the Board of National Investment would be much more restricted; it would hold the assets of the Post Office Savings Bank, the National Insurance Funds, and other capital resources in the hands of the government. Its function would be to advance funds for new capital expenditure by Public Authorities, and to railway and other parliamentary companies, to building societies, co-operative societies, land banks, etc. It would

have emergency powers to control overseas loans.

It is clear that this question of investment and its right direction is one of the major issues of capitalism to-day, and the thoughts of social reformers should be directed to it. It is equally clear that it is not necessarily socialistic to favour the establishment of a Board of National Investment, even with powers more extensive than those which the Liberal Report would give it.

While on this subject of investment, it is advisable to draw attention to a phenomenon which is of great importance. Industry is financing itself to a great extent out of its own undistributed profits, to the extent indeed of three-quarters of the new capital which is invested in home industries. The amount is estimated by the Board of Trade to be about £200,000,000 a year (after deduction of income tax). This is important as affecting the position of the private investor as a necessary factor in industrial development.

From what has been said above, it will be seen that *Britain's Industrial Future*, compared with the views of socialists and distributists, is conservative in tone. But it contains one chapter in which are the seeds of a root-and-branch remodelling of our capitalist system. That is the chapter on the diffusion of ownership, which admits that the mass of our population is a propertyless proletariat, living by the sale of its labour, and is in agreement with all Catholic social theory in urging a wider diffusion of ownership. The problem, as said before, is how to secure this, more particularly in the region of industrial capital. The report agrees with Messrs. Hamilton and May, the authors of a striking American book *The Control of Wages*, in believing that the chief hope of securing a wider diffusion of ownership of industrial capital lies in

securing to the workers in industry some share in the company reserves of undistributed profits, to which allusion was made in the preceding paragraph. It holds that after the existing shareholders have received an adequate return on their investments of net profits the balance should be shared with the employees of the concern, and it supports the opinion that the best method of doing this is to give to the employees allotments of capital, i.e., shares which they can sell.

In this suggestion they are not putting forward an exclusively party opinion. In a striking speech delivered in May 1931 by Lord Eustace Percy the following passage occurs :

We must return to the old idea which, in effect, used to govern our practice, though not our law, that a man who has only a limited liability for the failure of a business can have only a limited interest in its success—and, indeed, a limited ownership of its assets. As the cake grows, the wage-earner, as well as the owner of capital, must feel an interest in its growth commensurate with the risk that he, too, is taking owing to his dependence on the business for his livelihood. I believe that the weakness of profit-sharing as a means of giving the wage-earner a common interest with the capitalist is that it has taken too much the form of additions to wages out of profits available for distribution in a particular year, and too little the form of recognising the wage-earner's interest in accumulated reserves.

One of the most interesting and most energetically advertised of the methods for securing the diffusion of the ownership of industrial capital is that contained in the Valder scheme, of which the Liberal Report speaks with approval. It can be found outlined in a pamphlet entitled *Wanted! A Practical Solution to Britain's Industrial Problem*,

and in the numerous pamphlets, etc., published by the Employee Partnership Institute (N.Z) Ltd., of 150, Victoria Street, Hamilton, New Zealand, (London agents: Helen Ferguson & Company, 2, Melbourne Place, W.C.2). The scheme is for a company to issue to all its employees from the general manager downwards "labour-shares" without any payment, and in proportion to the value of the services they render to the company (i.e., roughly, to their pay). These shares have no cash value at the time of issue; but they acquire a cash value as reserves are built up out of net profits. Such reserves belong to the employees, for after payment of wages and salaries, and debts, after making provision for depreciation-reserves, and after paying to the capital shareholders a rate of interest to be fixed by the memorandum or articles of association of the company, all the balance belongs to the holders of labour-shares. These have equal voting rights with the capital shareholders, and may, if they like, become capital shareholders by taking the dividends on their labour-shares in the form of shares instead of in cash. When an employee ceases to be in the employment of the company, either by death or departure, he or his representatives receive the cash-value of his labour-shares. It is to be noted that the labour-shares have no nominal value; they do not represent money, but service. To enable this scheme to be applied in New Zealand by those companies which wished to adopt it, the Companies Empowering Act was passed in 1924. We have not gone so far in Great Britain yet, though the Companies Act of 1929, which continues the prohibition to companies against giving financial help for the purchase of its own shares, exempts

from that prohibition provisions made by the company to enable trustees to buy fully-paid shares to be held by or on behalf of employees of the company, and also exempts loans by the company to its employees (excluding directors) to enable them to buy such shares.

This scheme is one of the ways in which the worker can be given a real status in industry, and is in accordance in principle with the recommendation of Pope Pius XI in his encyclical on the Social Order, in which he says, "In the present state of human society we deem it advisable that the wage-contract should when possible be modified by a contract of partnership. In this way wage-earners are made sharers in the ownership or the management or the profits." It has the further advantage that it may be used to buy out the "absentee shareholders." The inconveniences which follow from capitalists owning shares in businesses which they do not in practice control and of which they know little or nothing beyond what they read in the City column of their newspaper have already been pointed out. Such property as this is deprived of most of the advantages which the ownership of productive goods brings to the owners by developing their characters and their sense of responsibility, and the provision it enables them to make for the future is too dependent on speculative conditions to be thoroughly sound and secure, to say nothing of its tendency to promote an unhealthy obsession of shareholders by reports and rumours from the Stock Exchange. If the shareholders in a concern consisted only of those who were actually employed in some capacity by the concern, these inconveniences would be largely eliminated.

## CHAPTER VI. NEO-CORPORATISM.

It will be seen that our thoughts are gradually passing from mere partial reforms of the capitalist system to a much more fundamental reorganisation of it; which presupposes neither the belief that the system is on the verge of collapse and transformation into the Peasant State, nor that the solution of the problem lies in socialism. Such a fundamental reorganisation has been outlined in the "National Plan," published under the auspices of *The Week-End Review* in February 1931. The Plan is very extensive, and covers the political as well as the economic field, so that we are only concerned here with portions of it. It proposes that all our industry and commerce should be transformed into a series of great amalgamations or federations. Within each industry competition is to be eliminated or restricted. The ownership of industry is to remain with private shareholders; control, on the other hand, is to be vested in a paid Council which will consist of representatives of the shareholders, the consumers, the management and the workers, and others interested in the concern. This Council would be responsible for the good government and the good behaviour of the industry; e.g. observance of factory and safety regulations and the settlement of trade disputes, with an appeal to an Industrial Court. In highly organised industries executive responsibility would lie with a small board of members of the industry, chosen by the Council for their business ability; in others, with the boards or executives of the amalgamating units. It is proposed that profits be legally limited. The

necessity of enlarging the home market is realised, and it is hoped that this would be done by providing successive increases of real wages, made possible by the increased efficiency which the Plan would secure. Strikes and lock-outs would not be forbidden, but there is good reason to hope that their number would greatly diminish as industrial self-government extended. An interesting suggestion is tentatively made that a National Insurance Trust should be formed to take over from the State all social insurance funds. The Plan is little more than an outline, but it has grasped the fundamental defect in our industrial system, viz., that (partly as a result of its history and of *laissez-faire* prejudices which still linger on) it is insufficiently organised; and the authors of the Plan have the uncommon merit of not falling into the error of thinking that industry cannot be organised except on a basis of State-ownership, or State-management.

This reorganisation of industry, by voluntary effort supported when necessary by the State, is precisely the ideal towards which Catholic thought is tending and has long tended; in fact, ever since the revival of the old "corporations," destroyed on the Continent by the revolutionary movement of the late eighteenth and early nineteenth centuries, was put in the forefront of his social programme by the Comte de Mun in France, by Vogelsang in Austria, and others. It is clearly approved in the papal encyclical on the Social Order, which says, "The aim of social legislation must be the re-establishment of vocational groups . . . binding men together according to the functions which they exercise in society. . . These groups, in a true sense autonomous, are considered by many to be, if not essential to civil society, at

least its natural and spontaneous development." We have learned to organise labour in trade-unions, and employers in their associations; we have learned to organise shareholders in joint-stock companies. Combines, both vertical and horizontal, have taught us that individual concerns, even in different branches of industry, can be organised in powerful groups. The time has come to organise each industry as a whole. Mr. Cole sees this, though from the necessity for organisation he jumps immediately to the need for socialism. The National Plan of *The Week-End Review* sees it, and makes it the basis of its scheme of economic reform. *Britain's Industrial Future*, in its suggestion that large-scale monopoly companies should receive legal status as "Public Corporations" is on the way to a corporative organisation of industry. So, I think, is Mr. J. M. Keynes (*The End of Laissez-Faire*) in maintaining that "progress lies in the growth and recognition of semi-autonomous bodies within the State." Guild Socialism, before divergence of views between its advocates led to its demise, contained the corporative idea, though it contained also (at least as advocated by Mr. Cole) a spurious element of socialism too, in its advocacy of State ownership of the means of production.

The general ground-plan of what is becoming known as Neo-corporatism is that each industry should be legally recognised as an economic whole, composed of the various individual concerns within it. It should be governed by a Council composed of representatives of the owners of the capital invested in the industry (to-day usually the shareholders), and of those who are employed in any capacity in the industry. There is no reason why



provision should not be made for (say) the Board of Trade to be represented also, as guardian of the interests of the community. This Council would have power to make regulations for the industry as to output, marketing, prices, labour conditions, etc. Subject to these regulations (which should be legally enforceable) each concern in the industry would manage its own affairs. Within the industry employers would be perfectly free to form their own associations, membership of which would not be compulsory; and workers perfectly free to belong to a trade-union or not. But certain privileges might well be given to those who were members of their appropriate associations, since on these associations would fall, as it falls now, the duty of watching over the interests of those to whom their membership was open. Amongst these privileges the most important would be the right of electing representatives to the Council of the industry. The industry once organised as a whole, a large field of activity would lie open to it. It might well assume responsibility for the social insurance of its workers, and thus relieve the State of a task for which it is not fitted. It might very usefully set up a special branch for the collection of statistics about production, prices, profits, costs, etc., within the industry. It might appoint a committee to overhaul marketing methods, and to advise the constituent units of possible improvements. So far as the efficiency of industry is concerned, there are none of the reforms suggested by the Balfour Committee or the Liberal Report or by any other competent observers which could not be carried into effect more easily if industry were organised in this way than they can while it remains unorganised. This has, of course, been seen

clearly by those who are pressing for the rationalisation of our industry, though too often the measures they propose fail to touch the root of the difficulty, which is that our business concerns form an agglomeration, not an integrated organisation.

We have seen the insistence with which reformers of various schools have pressed for greater publicity in industry, for the sake of the investing public, for the sake of industrial peace, and for the sake of industry itself, suffering as it is from too little knowledge about its own position, financial, economic and commercial. An industry organised as an organic whole would be able to collect and communicate all essential information far better than even a cartel can do.

We have seen too that the concentration of control of industry in the hands of a few, to the practical exclusion of the shareholders, workers and consumers, is becoming more and more the object of dissatisfaction and attack. The Council of an industry would give a voice to these excluded classes, without weakening the practical management of the organised concerns. The workers would be given a genuine status in industry; they would be recognised as real co-operators with capital, and one of the chief causes of class-hostility would be removed.

As was said above with reference to efficiency, so now it may be said with regard to all the measures of reform which have been discussed in the preceding pages, there is not one of them having real value which could not be applied more easily to organised corporate industry than it can to-day. There is no need to fill in more details of corporate organisation. The scheme is essentially adaptable in detail; it is its framework which is

of supreme importance. Moreover, to paint too detailed a picture of a remodelled system is to produce an impression of unreality, of utopianism, on the reader; and it is vital to realise that Neo-corporatism is neither unreal nor utopian. It is a practical scheme, which could be applied to any industry which had the will to organise itself. The Whitley scheme took us some way towards it, so far as the personnel of industry is concerned; rationalisation is a step towards it on the financial and technical side. The whole movement of modern social thought, the pressure of the facts of industry to-day, is in the direction of the corporate organisation of industry. It is extremely urgent that the form of corporate organisation which industry will inevitably adopt should be a sound form. We want neither the dictatorship of the combine nor State-ownership of industry.

There are, needless to say, problems which Neo-corporation would have to solve in practice. One would be that of sanctioning the establishment of new concerns within an industry, and of eliminating concerns which were infra-marginal, i.e., which were uneconomic in operation. Another would be the correlative one of enlarging or contracting the number of workers. But such problems as these are precisely problems of organisation; problems which now are left to so-called "economic laws" for solution, with resultant economic loss and human distress. To deal with them we need a body which will be capable of grappling with them on behalf of the whole of an industry, and of commanding the confidence of all who are engaged in that industry, as well as of the community. There would be the economic problems which face industry at all times (including one to be mentioned

more at length in a moment), but a corporately organised industry could face them with greater hope of success than our industrial leaders can to-day. There would be the old problem of the limits of an industry, which perplexed Parliament during the debates on the Trade Disputes Bill of 1927; it received a working solution for the purposes of that Bill, and it could be solved if a sincere effort were made to put Neo-corporatism into practice. Finally, there is the greatest problem of all; the problem of persuading an industry to organise itself, a problem which has so long baffled the cotton trade. I do not feel myself competent to suggest a solution to that problem: But if it is not solved, it is difficult to see that any future can be promised to British industry.

## CHAPTER VII.

### " THE LIMITED MARKET."

I HAVE left to the last a problem which is not peculiar to capitalism but which must affect any system which has progressed beyond the barter-stage of exchange of commodities : the problem of the relation between the product of industry and the purchasing power of the community. Strictly speaking it might be omitted from this book, but as it is closely connected with the commercial crises said to be characteristic of capitalist production, and as it is receiving an increasing amount of attention to-day, a short statement of the question at issue will perhaps be pardoned.

Of course, anything like an exhaustive discussion of this large and complicated matter is out of the question here. To deal at all adequately with the growing literature about it would require a book larger than the present one, and would involve a preliminary explanation of the theory of currency and credit. In the United States the economists Messrs. Foster and Catchings have already published several large books to popularise their views on currency-management, and in England we have not only the various publications of the Douglas school of " social credit " but also the writings of Mr. J. A. Hobson in which he expounds his belief that, owing to maldistribution of wealth, we are suffering from over-investment. There are also the publications of more orthodox economists (such as Professor Cassel, Professor Irving Fisher and Mr. J. M. Keynes) advocating one or other modification of our monetary system. Instead of attempting the formidable task of reviewing all

these works, I shall confine myself to giving a brief account of a book which explains very clearly and very patiently certain criticisms of our monetary system which are common ground to various writers. I refer to *The Problem of Maintaining Purchasing Power*, by Mr. P. W. Martin, published in 1931.

Mr. Martin directs his analysis to discover the causes of the periodic business-crises and industrial depressions which affect the world of industry, commerce and finance. If there were a steady demand for commodities at remunerative prices, and if purchasing-power (i.e., money of all sorts) were so plentiful and so distributed amongst consumers that this demand was effective, there would be little room for crises. With our greatly increased power of production, the problem of to-day is not that of a century ago; no longer is there a difficulty in producing the commodities which the world desires. The difficulty to-day is to market the commodities when produced; not, however, because there is no demand for them, but because the demand is not effective, since it is not backed up by purchasing-power. In a sentence, people want the goods but have not the money to pay for them. At first sight this may not appear curious, for we are quite used to the idea of people wanting something but not being able to afford it. But it is curious, none the less. For if we consider the community as a whole, and not merely some "hard-up" individuals or classes in it, one would expect its total effective demand for commodities to be equal to the commodities supplied; and this not merely because it is demand which calls forth supply, but because the purchasing-power of a community (which makes demand effective) ought,

apparently, to be the same as all the costs, including profits, of producing the commodities. In other words, one would expect the total purchasing-power to be equal to the total prices of commodities; and the reason for this expectation is that total costs (including profits) are made up of payments which have to be made to various members of the community for the services they render to industrial production (i.e., salaries, wages, interest on debentures and loans, dividends, etc.). So, again taking the community as a whole, what it takes out of one pocket to buy with, it receives into another pocket from the industrial machine. One would expect these two sums to be the same.

This expectation is not proved to be false by the mere fact that producers of some particular commodity cannot find a market for it. This may be due to the fact that people have as much of that commodity as they want; or at least as much as they are prepared to buy at a price which will give a reasonable profit to the producers. In such a case, the producers have made an error of judgment, and we have an instance of what Mr. Martin calls "disproportionate production," i.e., over-production in one particular industry.

Again, if those who receive purchasing-power from industry do not spend it, but hoard it up in safes or stockings, then (other things being equal) there will be insufficient purchasing-power available to buy commodities at the old prices. Equilibrium between commodities and purchasing-power will be temporarily disturbed; temporarily, because gradually prices will adjust themselves to the diminished volume of purchasing-power, though with loss to the producers.

On the other hand, if the supply of purchasing-

power is increased by some agency outside industry (as it can be by the Government printing notes or coining money, or by the banks granting more liberal credit), there will be a disturbance of equilibrium between commodities and purchasing-power (other things being equal), but this time in favour of producers.

These and other forms of inflation and deflation of the currency are well-known to economists and the general public, though not as well understood by the latter as they ought to be. The question raised by Mr. Martin and other critics of our monetary system is much more fundamental. They ask, does the very working of our industrial system of itself, and apart from the interference of other factors, tend to disequilibrium between purchasing-power and the supply of commodities?

Briefly, they reply that certain uses which industry must necessarily make of the purchasing-power it receives from the community tend of their nature to disturb the equilibrium we have been discussing; and consequently tend to disturb the even flow of commodities to the community, with resultant crises. Industry requires not only fixed capital (factories, machines, etc.) but also working capital (funds to buy raw materials, to pay wages, etc.). This working capital it obtains by borrowing it from the community, or from the banks, or by using undistributed profits. Mr. Martin's contention is that additions to working capital, whether obtained by borrowing from the community or by using undistributed profits, make for a corresponding deficiency of purchasing-power, and thus tend to disturb equilibrium; if they are obtained by bank credits, thus increasing the total amount of purchas-



ing-power in circulation, they will disturb equilibrium in favour of superabundant purchasing-power.

This will be clearer if one of Mr. Martin's illustrations is given in detail. Let us suppose that industry borrows £1 million from the community, and uses it to take on more workers. On the side of purchasing-power, £1 million is taken away by the loan to industry, and returned in the shape of wages; so that the position here is unaffected. But on the side of commodities, the supply is increased by the output of the workers who have been engaged on the strength of the loan. There are more commodities offered than before, while purchasing-power remains the same. In other words, equilibrium is disturbed; there is a deficiency of purchasing-power, and remunerative prices cannot be obtained by the producers.

It would be utterly unfair to Mr. Martin to leave the reader under the impression that this compressed summary includes all the elements of his analysis of the working of the industrial system. He takes into account many elements which modify the tendency to disequilibrium just discussed, and enumerates other influences affecting equilibrium in one direction or the other. To make his meaning plain, he makes use of repeated summaries and diagrams, evidently realising the difficulty which the ordinary man has in following monetary discussions. If the summary of his thesis just given errs by over-simplification, I can only hope that it will have at least the advantage of making his main point clear.

I hope I have also made it clear that it is no part of my purpose to pass a verdict on any of these modern criticisms of our monetary system, even if I were competent to do so. My only object

is to complete this account of various opinions about the future development of capitalism by drawing attention to the probability that, as a result of the work of many authors and propagandists ranging from the orthodox Mr. Keynes to the unorthodox Major Douglas, however divergent their views, some place will be found in the remodelling of Capitalism for a new method of dealing with our currency system.

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**PRINCIPLES OF  
PUBLIC FINANCE**

WITH CHAPTERS ON  
**INDIAN FINANCE**

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## CHAPTER I

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### INTRODUCTORY

"Finance is a great policy"—Wilson.

#### 1. WHAT IS PUBLIC FINANCE?\*

FINANCE is regarded as the most difficult part of a difficult science. Yet it is one of those things that 'comes home to men's business and bosoms'; especially so in modern times, when every action of the State has some financial bearing and has profound influences on the social and economic life of the citizens. No single item of new taxation, when proposed, passes the legislature without great controversy and much heat. The floating of a loan, or the sale of Treasury Bills rarely escapes the acute criticism of the press and the public. And yet Finance is a mystery to the uninstructed!

The simplest approach to a complex subject such as Finance is by means of an analogy. The Finances of the State have been compared with those of a prudent citizen, a business corporation or a social club. Let us take the

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\* The word Finance originally meant a fine, and by a series of changes has come now to denote all matters pertaining to currency, exchange and capital. This is the wider meaning; but when the term is qualified by the epithet, 'Public', the connotation is to the Finances of the State. The French use the singular form to denote the former, and the plural to denote the latter meaning. 'The Science of Finance' is another term used widely to denote the Finances of the State.

fundamentally different character of the State. The State is an organisation designed not for individual or immediate profit to itself, but for services to the community. Hence these differences.

Lastly, Public Finance is very often compared with the finances of a corporation or a business concern. The verbal resemblances are obvious, but in all fundamentals the differences are overwhelming. The State makes no profits, whereas profit is the sole concern of a business. "A business keeps down expenses in order to increase its income; the State keeps down expenses in order to diminish its income.....The State does not earn money but takes it. A State is not prosperous, when its income is great." 4

How striking then are the differences between private and Public Finance! In the first place there is no consideration of 'profit' whatsoever; but Government expenditure is so laid out that it will result in the largest measure of social well-being. It does not look to money profits or direct and immediate returns. Secondly, unlike an individual, it looks to the interests of the whole community. In its spending policy, the State may disregard the claims of an individual or a group of individuals, if they conflict with those of the community as a whole. Or, when it gives protection to an industry it may apparently benefit a small group, if in the long run the benefits would accrue to the whole country. In its revenue policy the same principles are applied. For example, a tax on liquor hits hard the small class of consumers of that commodity; but its taxation is necessary in the interests of the regulation of the morals of the community. In short the State may be said to

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4. Hills, J. H. Op. Cit.

represent the *collective* interests of the whole community and has the attainment of maximum social advantage as its ideal.

For these reasons Public Finance is coming to be more and more sharply distinguished from private finance. Although here and there the rules of private finance afford us some guidance, such as equi-marginal utility in expenditure, they have no bearing whatsoever on the wider and larger problems of Public Finance. The subject is becoming "more social and less economic." It is viewed from a public point of view. This is probably why best business-men prove disappointing finance ministers.<sup>5</sup> There is however one important consideration, which makes Public Finance resemble private finance *ultimately*. The State has no fund or wealth of its own either to spend, to borrow or to raise; it is dependent for its finances on the resources of the community. Its legal compulsion to raise taxes cannot go far beyond the means of the people, and if it exceeds that it must needs face bankruptcy like the individual. It is for this reason that Prof. Cohn thinks that the distinction between private and Public Finance is "more legal than economic."

### 3. RELATION TO ECONOMICS AND POLITICS

Public Finance is more closely related to Economics and Politics than to any other branches of the social sciences. Prof. Dalton remarks rightly that it lies on the borderland between them.

**To Economics.**—In its origin, Political Economy started with Public Finance as the theme. In his Introduction to the Fourth Book, Adam Smith remarks:

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5. Ely.

"Political Economy proposes two distinct objects: first to provide a plentiful revenue or subsistence for the people or more properly to enable them to provide such a revenue or subsistence for themselves, and secondly to supply the State or commonweal with a revenue sufficient for the public service. It proposes to enrich both the people and the sovereign." In fact the Science of Finance is of earlier origin than Economics. Prof. Plehn observes<sup>6</sup> that it is "the forerunner of both the sciences (Economics and Politics) to which it is now subordinate."

It is quite a commonplace to say that the principles of the general theory of Economics are essential to the understanding of this science. The laws of consumption are valuable in the domain of expenditures; of monopolies to the fixing of rates in public industries and of value and distribution to solve the problems of incidence and so on. Prof. Adams remarks: "A sound policy of Public Finance must rest upon a thorough knowledge of Political Economy."<sup>7</sup>

Perhaps the closest relation is to be found in the mutual actions and reactions of public economy with social economy. Since the Government is the largest employer of labour, directly and indirectly, the standards of comfort of social welfare and even of wages it sets up are followed by private industries. Its loan operations similarly influence the rate of interest in the money market. The tariff policy has far-reaching influences on production and foreign trade. Its taxation might fundamentally affect the distribution of wealth within the community. In the same way, the effects of

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6. Plehn—Introduction to Public Finance. P. 5:

7. Adams. P. 3.



social economy on Public Finance are numerous and significant. Progress or depression in industry, social distress or political unrest will have varying effects on the Finances of the State. For these reasons, the two subjects are inter-related; the study of the one cannot be isolated from that of the other.

**To Politics.**—The connection between Public Finance and Politics is closer too. It is a subject inseparable from the State. Without finance no State can exist; and without the State no economic activities are possible. Again, the one is bound to grow with the other. In the primitive State there was very little Government and very little finance, but finance occupies the central place in a modern State. Cherbulez well calls Public Finance as the "Economical Department of Politics."<sup>8</sup>

Most of the operations of the State in their last analysis are found to be financial in character (if we leave out such actions as diplomacy, signing of treaties etc). State undertakings of industry, provision of post and telegraph and other public utilities are for the purpose of either raising revenue or conferring common benefits to the citizens by wise expenditures. To some extent the State Finances control our individual and private actions! A citizen is allowed to perform most of his avocations only after taking out licenses. The State's tariff policy decides to some extent what food we should eat and what clothes we should put on and so forth. Political actions are largely financial in character.

Thirdly, just as social economy has actions and reactions on public economy, so does the political or-

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8. Quoted by Cossa—Introduction to the Study of Economics.

ganisation on the Finances of the State. In the name of nationality, the States have waged wars and have piled up huge debts. The presence of a war-like neighbour necessitates on the part of France to spend large sums of money on defence forces; whereas the United States of America, cut off from Europe, need not, (for political reasons) have such a huge expenditure relatively. Again, the financial system depends to a large extent on whether the political organisation is unitary or federal. A highly developed system of local government, will have similar influences on the Finances of the State. Another important influence of political conditions on Public Finance is the existence of corruption, extravagance and waste in democratic Finances. Thus a study of Public Finance must take account of all the political conditions of the State.

Lastly, the administrative side of Public Finance strictly belongs to the "art of politics."\* The collection and application of revenues are purely administrative details. The preparation and the execution of the budget, the maintenance of Treasuries and other establishments, are the acts of the Executive, while the legislation of the budget, the voting of supplies and grants, belong to the domain of the Legislature.

It is a nice question to argue whether Public Finance belongs more to the domain of Economics or of Politics. It is safer to say that it participates in both. In the purely theoretical aspect, it belongs to

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\* Prof. Sidgwick takes a somewhat different view. He regards Finance as the "Art of Political Economy" which treats of "the theory of what ought to be done by Government to improve production or distribution and to provide for Government expenditure." Bk. iii. Ch. i.

Economics, and may be regarded as a part of Applied Economics. The German writers would call it 'Political Economics' as distinguished from Pure Economics, and regard it as being concerned with the principles to be observed in the interference of private wealth by way of raising and spending the revenues of the State. On the other hand Public Finance cannot be separated from the science of Public Administration. Thus, in its practical aspect, it belongs to the domain of Politics. It is capable of treatment from either point of view, but the one cannot be mutually exclusive of the other.

#### 4. METHOD AND SCOPE OF THE SCIENCE.

In the foregoing paragraphs, it has been shown that Finance is a practical art as well as a theoretical science. No *a priori* system of Finance can therefore be established. Nor could a practical system be devoid of scientific principles.

The nature of the subject offers us guidance to the methods of inquiry. As a pre-eminently practical art, every system of finance must pay due regard to the particular circumstances—historical, political and economic—of each country. The historical method of approach will therefore be valuable for showing the connection with the past, providing data for illustrating and verifying present problems or for comparisons of progress at different periods in the same country, or between one country and another. The earlier German writers have all followed this method laboriously arriving at general principles by induction from the ascertained facts and details of history. This method should never be lost sight of by the student of finance or the statesman; for as Seligman observes, "Fiscal science rarely grapples

with problems until they have become acute." Further, no item of taxation or expenditure which is theoretically sound or has succeeded in one country can be introduced in another country without reference to its peculiar economic and other conditions. "The Science of finance is in one of its aspects 'inductive', 'comparative', and 'historical'".<sup>9</sup>

This does not mean that pure deduction is inadmissible. Generalisations and conclusions on *a priori* reasoning are possible and are of great importance just as much as in Economics, owing to the *uniformity of the development of fiscal policies* and the fact that the industrial and social forces that determine finance are the *same* in all countries. "There is a silken strand which runs through the tangled skein giving unity to what seems disorder." In another important respect is the deductive method of great assistance. The theories of utility, value and demand are capable of wide application in the field of taxation and expenditure, especially in the determination of incidences. However important the deductive conclusions may be, they are in the nature of "many short links" rather than "one long chain" and should at every turn be corrected and modified by the results of induction before they are applied. "Induction and deduction are both needed for scientific thought as the right and left foot are both needed for walking."<sup>10</sup>

The scope of the science may now be briefly indicated. The State requires large outlays of money to meet its varied expenditures determined by the functions it

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9. Bastable—Public Finance. Introduction. P. 13.

10. Schmoller. Quoted by Pigou. Industrial Fluctuations.

has undertaken, and raises the revenue from a variety of sources. Thus the functions of Government, and the various items of expenditure are to be studied and analysed. The problems of revenue consist of a study of non-tax receipts and their regulation and of tax-receipts and the adjustment of the burden equitably on all the citizens. Loans become inevitable in Public Finance owing to various causes and thus Public Debt is another item for investigation. In this connection a larger field is open to us in the matter of war finances and the question of reparations with their effects on international exchanges. Provincial and local finance constitute a separate category, since the principles and practices are different from those of the Central Government. It is also based on the consideration that the constitutional and administrative arrangements are different. Lastly, administrative machinery or the technique of finance is to be studied. Its bearing on the theory of finance seems very remote at first sight but a closer examination reveals the fact that it is as important as the other parts of the subject. It is on the proper regulation and control of the budget and on the audit that the effectiveness of expenditure and revenue depends. The fundamental unity of the subject contained in the definition that Public Finance is the Science of the Management of State Moneys should always be kept in view.

##### 5. THEORY AND PRACTICE OF FINANCE

It is interesting to trace the evolution of Public Finance both as a theory and an art, bearing in mind the close connection between the two as has been described in the previous section. Each age had its own schemes of revenue and expenditure which were deter-

mined largely by its economic and political conditions. They have varied also with every variation in the thought of the economists and statesmen. The influence of theory and practice has been reciprocal.

## I

In any country, when the State is found to have fully emerged from society, there arose financial needs for the construction of roads, bridges and fortifications for military purposes. The primitive king or chieftain who was at once the high priest, judge and military leader met such expenditures out of the booty of war or from voluntary contributions. "In all primitive societies voluntary offerings constitute the first form of common contributions, and every man feels the necessity of upholding the political and military organisation by his own personal efforts."<sup>11</sup>

In the next epoch the powers of the King extend, and he appropriates to himself a large number of powers and revenues. He claims rights of coinage and its profits. The keeping of the king's peace becomes his prerogative and he exacts fees and fines for its administration. Occasionally he resorts to the levy of a compulsory payment from the citizens; but as yet there is neither taxation nor the idea of a common burden. Such a state of society is pictured in the England of King Alfred, where Danegeld was levied for keeping off the Danes.

## II

The next phase of evolution ushers to us a complex society, whose many-sided organisation was based on

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11. Seligman. *Essays in Taxation*. Ch. 1. P. 2.

the ownership of land and the rendering of certain obligations and mutual services. The King was the pivot of the whole organisation, from whom land was held feudally by the tenants-in-chief, who in turn sublet it to others and so on till we reach the lowest rung of the ladder—the serfs who held no land. The bulk of the services of the State were judicial and military, and the contributions were all in the persons of those who held land. Though the King claimed and took many aids and dues, we do not have the modern conception of taxation.

It is only at the close of the feudal epoch, when money economy was coming into vogue, when the services had been commuted, and when the royal authority had been centralised that we have the idea of taxation, as seen in the proceedings of the Parliaments of 1265 and 1295. Strangely enough these taxes were what we should call indirect taxes, the tonnage and poundage and customs. Direct taxes on property were levied such as in the time of Richard, but were only occasional. On the continent, where aristocratic influences became powerful, the masses of the people were ground down by a multitude of indirect taxes, while the wealthier classes practically escaped all taxation. In France, down to the Great Revolution of 1789, the tax system was most oppressive on the common people. This was the period of indirect taxes, and there was hardly any theory of Finance.

### III

It was the reaction against the selfishness of the aristocrats that brought into existence the theories of

Finance. The Cameralists also developed the theory of Finance, when the separation of the revenues of the Government, as distinct from those of the Prince, came into effect. One of the ablest thinkers of the 18th century, Montesquieu, (1689-1755), published his "Spirit of Laws" propounding the advantages of direct taxation at a progressive rate. The Physiocrats, especially the best known among them, Quesnay (1694-1774) devoted their time to the study of incidence of taxation and advocated the taxation of the "net produce of the land." Turgot, the Finance Minister, (1726-1791) carried out the new theories into practice. "He abolished 23 taxes onerous to industry and trade, the *carvee* on roads and yet left a large surplus as compared with a deficit when he assumed office."<sup>12</sup>

#### IV

Still the Science of modern Finance was not born. It was the publication of Adam Smith's "Wealth of Nations" in 1776—the first treatise to deal with all the problems of Finance—that paved the way for increasing literature on the subject and the development of sound practices in many countries. Next, impetus was added everywhere by the democratic movement. Adam Smith was followed by a number of able writers.—Hamilton, Ricardo, McCulloch and Mill. The Industrial and Agricultural Revolutions and the consequent rise of the factory system brought new problems in the Finances of the State, while the great wars increased enormously the national debts.

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12. Shirras—The Science of Public Finance. Bk. 1. Ch. 11. P. 13.



Theory and practice now went hand in hand. The new industrial and social problems gave rise to the theory of extended State action, which were only reluctantly worked out by the statesmen in the field of social legislations. Increased expenditure led to reforms in taxation, especially in the abolition of many unproductive indirect taxes. Then came the great epoch of direct taxes on income inaugurated by Gladstone. The nineteenth century was the formative period of modern Finance.

The development of financial theory in recent times owes to the works of the German and the American writers. The principle of "ability" was worked out by Prof. Seligman, and he was also the first to emphasise the social point of view in Public Finance. The socialistic idea of using taxation as the regulator of better distribution of wealth finds its expression in the works of the German writers, especially in Prof. Wagner's. English contribution to the science dates from the publication of Prof. Bastable's book in 1892. The writings of Prof. Edgeworth, Sir Josiah Stamp and Prof. Pigou also constitute distinctive contributions to the science. Progress of thought had its influence on financial practice also. Proportional taxation has been given up and progression has been introduced in conformity with the social conception of finance. Increasing attention is paid to the taxation of income, abandoning indirect taxes. Socialistic ideas are permeating in such taxes as Death Duties and the proposals for Capital Levy and the Minimum Sacrifice scheme. What is more remarkable than the newer schemes of taxation is the application of the social principle in the field of expenditure on such services as education, health, insu-

rance and poor relief. Public Finance is to-day the central platform for social and economic reform. '13

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EXERCISES.

- (1) Define Public Finance.
- (2) Discuss the views of those who hold that Public Finance is more properly a branch of Political Science than of Economics.
- (3) What are the differences between public and private finances? Examine the statement that the differences are legal rather than economic.
- (4) "The individual says, 'I can spend so much.' The Finance Minister says 'I have to raise so much.' This difference is apparent rather than real." (Bastable). Explain.
- (5) "The nature of the State determines the financial system." Illustrate.
- (6) Finance and Economics are inextricably intertwined" (Seligman). Discuss.  
"The modern conception of Economics as a science which has less to do with political and more with individual activities would perhaps exclude Public Finance" (Plehn). Do you agree?
- (8) "Finance is the hinge of Government"—(Wilson.) "The State is the centre of Public Finance"—(Plehn.) Explain. Is there any contradiction between the two views?
- (9) "Public Finance is a social science"—Explain.
- (10) Indicate briefly the character and scope of Public Finance and also the methods of inquiry.

## CHAPTER II.

### THE FUNCTIONS OF GOVERNMENT

"The State is merely an aspect of social relationship. It is the result of an evolutionary process of adjustment to conditions. Therefore the functions of the state must be stated in terms of this process of adjustment and growth and will depend upon the qualities of the people and their environment." Guest : "*Public Expenditure.*"

#### 1. HISTORICAL DEVELOPMENT.

Professor Plehn declares that "a determination of what the proper functions of the State should be is no part of our subject, but belongs wholly to Political Science." <sup>1</sup> Though the view may be technically correct the subject cannot be relegated entirely to Politics. For, as a study of human wants must form the necessary basis of the theory of consumption, so must an examination of the functions of the State be a necessary preliminary to the study of public expenditures. Further, the approach is *new* since it is from the point of view of Public Finance and not of Politics.

The functions of Government have never been stationary. They have been always growing and expanding. They have changed with every change in the conception of the state and the change in social and economic conditions.

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1. Introduction to Public Finance P. 3.

In the primitive society where the State was a mere military organisation for defence as well as aggression, the functions were limited to the carrying on of war. Justice was administered in the crudest way to maintain order within. Beyond these two functions of war and justice, the primitive State had no other duties.

In the next stage of political evolution, the State is conceived of as a great society resting upon a system of contracts and mutual obligations. The social, economic and political organisations were based upon land-tenure. So the State activities are many-sided. They appear in the management of the King's domains and the raising of the necessary revenues by means of 'dues' and 'aids'. In the later stages of feudalism, the feudal activities are seen in the guild regulation of trade and industry.

Towards the close of the Middle Ages, Feudalism gave place to independent republican City Governments, which were established in many parts of Europe, especially in Italy. There was a many-sided state activity ranging over religion, education and social well-being, recalling the classic civilisations of Greece and Rome.

From the 16th to the 18th centuries, Europe was under the Government of the despotic monarchy who chose to interfere in every department of life. Religious opinions and practices were formulated by them and were forced upon the people, and they even went so far as to wage wars upon other countries for the sake of religion. Similarly, the State claimed powers to regulate trade and industry in the way it conceived to be in the interests of the community. It found its highest expression in the so-called mercantile system, and parti-

cularly in France in the administration of Colbert. With the beginning of the modern times despotism gave place to democratic, national states.

In its political aspect, the modern State may be said to have been born with the French Revolution; in its economic aspect it coincided with the Industrial Revolution. The guiding policy of the State under the new political and economic conditions was "individualism." It was based upon the theory of "natural liberty". In politics the individual was given franchise and equal opportunities for political power. In economic life, 'freedom of enterprise' was recognised for capital and labour and all the restrictive measures of the mercantilistic age were repealed. Religious liberty was recognised by granting toleration to all communities. Individual liberty, having been recognised, the State's functions were narrowed to the province of protecting the individual from violence and fraud, by maintaining army and navy for external defence and courts of justice and police for internal order. Herbert Spencer, the extremist exponent of this ideal who regarded the Government as consisting of "a few clever, many ordinary, and some decidedly stupid cluster of men", declared boldly that "we might trust Heaton & Sons, or some other enterprising firms of Birmingham to supply us with sovereigns and shillings!"<sup>2</sup>

Such a view is manifestly absurd. In the first place the admitted functions of defence and justice do not seem to be so narrow in *practice* as they appear in theory. They embrace a much wider field than people are aware of. For example, protection of the person and

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2. Quoted by Withers.—Our Money and the State, P. 10.

property of the citizens has a great effect upon the economic prosperity of the country. Secondly, if the functions are restricted to a narrow field as idealised by 'individualism', a large number of desirable results cannot be achieved in society, which are feasible only under the collective enterprise of the whole community. Thus the interference of Government in industrial and social matters is inevitable and highly desirable. It ought to interfere even in the domain of distribution to increase the sum total of social happiness. The ideal of Government functions is not the negative one of 'hindering of the hinderances of liberty,' but a positive one of extending to every sphere of life for the "perfection and completion of national life". Sidgwick expresses the same idea in the following words: "*Laissez-faire* is not to be taken as a political ideal: the problem for the statesman is to balance its disadvantages against the disadvantages of extending the sphere of Government."<sup>3</sup> The question is not any longer whether the state should interfere or not. It has interfered; and the question is how far, in what way and over what field.

There are also certain natural limits to the extension of governmental activities. In the first place, the State is not always the best judge of the interests of the individuals except when collective interests are involved. There are also the difficulties of efficient and successful management. Lastly, all extension of governmental activities require large financial outlays, which are limited by revenues that can be raised without injury to private economy. The comprehensive

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3. Principles, Book iii, Ch. 2, Sec. 7.

principle for the statesman is, therefore, general expediency.

## 2. CLASSIFICATION OF THE FUNCTIONS.

J. S. Mill classified all the functions of Government into two divisions—necessary and optional. By the term optional, "it is not meant that it can ever be a matter of indifference or of arbitrary choice; but only that the expediency of exercising them does not amount to necessity and is a subject on which diversity of opinion does or may exist." (Book v. ch. i.) Curiously enough, what Mill himself would have considered as optional, have now become necessary functions! It may also be asked from *whose* point of view they are to be regarded as optional. The classification of Shirras as Primary and Secondary is also open to the same objections. Any exclusively subjective classification cannot be of great practical importance; it must have also an objective bearing and must serve some practical purpose. Prof. Adams classifies governmental functions under three heads—protective, commercial and developmental. Similar to this, may be adopted another classification—Political, Economic and Social. It should not be understood that this classification is rigid because of the interrelation between the divisions. The dividing line cannot be clearly marked off, and there will be considerable overlapping. For example, all the political functions enumerated below have their direct and indirect economic effects. Social amelioration is not without its political necessity or economic consequences. But the divisions are convenient and would give at a glance a complete view of all

the activities in the three important spheres of human life.

### I. POLITICAL.

Defence and security are the foremost among the political functions. Defence entails the maintenance of armies, naval and air forces, the manufacture of armaments, the declaration of war and the conclusion of peace, the signing of treaties and the maintenance of diplomatic and consular services. Internal security requires the establishment of courts of justice and police forces, with a system of laws of tort and contracts etc. The normal tendency in all modern States is to decrease the burden under the first heading. The development of morals, it may be hoped, will lessen the expenditure on law courts.

### II. ECONOMIC.

Economic activities embrace a large field of State action in all progressive communities. The very complexity of the economic organisation of society calls for state intervention in the form of *facilitating* and *regulating* or *controlling* business. There are certain needs, which the State alone can provide, because of its superior organisation, and this entail State *undertaking* or running commercial services in return for fees and other charges. Economic nationalism has also resulted in a policy of direct and indirect assistance and *encouragement* of industries. The socialists would go still further and demand the *nationalisation* of land and other means of production. The relation between the State and industry is to-day intimate and their mutual reactions are very great. The following is a description of the activities of a typical modern State:



(a) **Facilitating business**:—Laws of partnership and insolvency; of Trade Unions, Trusts and Companies; Laws of Patents, Trade Marks and Copy-rights; the establishment of a sound currency, weights and measures; provision of good roads, railways, canals and turn-pike systems; of Posts, Telegraphs and Telephones, etc—are some of the services that fall under this category.

(b) **Encouraging business directly and indirectly**:—Direct encouragement takes the forms of opening departments of industries, agriculture etc; the appointment of Developmental Commissions with the object of promoting production or an Economic Advisory Council as has been done recently in Great Britain; the starting and pioneering of new industries; granting protection in the form of import and export duties or bounties and preferences; the provision of export credit facilities. Indirect encouragement is given in the collection and publication of commercial information; in organising research, experiment or investigation and in carrying on advertisement to push the sale of national goods. Direct encouragement of business is fraught with many political and economic dangers. But as a general rule we may lay down that the State can play an important part in the development of national resources subject to the *rule of expediency*.

(c) **Regulating business**:—The right and the duty of the State in this sphere have been recognised since the beginning of Factory Legislation in England in the year 1840. Factory Legislation extends to the fixing of reasonable hours of work and conditions of employment, of sanitary and ventilation arrangements, of safeguards against accidents and the establishment of Trade

**Boards and Minimum Wages.** The State regulation extends to another important field of business—Public Utilities. Government has control over the fixing of rates in private railways, tramways and shipping. It passes and enforces laws against adulteration of food, the manufacture and sale of drugs and intoxicants. Government provides the standards of qualifications in the important professions of Medicine and Law. Thus it appears that the State regulation in all these matters is justifiable because the weak are to be protected against fraud and exploitation by the strong.

(d) **Control of business** :—This is one of the latest developments in State action and is more pronounced in some of the quasi-collectivist arrangements. Government constructs railways and leases them out to private companies, retaining certain powers of control as in Italy and India. In certain businesses, the State holds a fixed number of shares without saddling itself with the responsibility of detailed management. Control is also exercised by appointing *ad hoc* expert bodies representing its own interests in the directorates. Government directors have been appointed in the directorate of the Bank of England, the Imperial Bank of India and the Federal Reserve Board of the U. S. A. The Inter-State Commerce Commission of the U.S.A. regulates the issue of the shares of private companies etc. Stringent control is also exercised over monopolistic corporations, Trusts and Carlets. State control is essential as a corrective to the excesses of private industry.

(e) **Ownership of business** :—Besides regulation and control the State has come to own and run certain industries. Some of these industries are those which for one reason or another tend to fall in the hands of a

monopoly. They are the 'octo-poid' industries—rail, transport, water, gas and electricity. They are services which "sell themselves." They are in large demand and are more or less standardised by natural causes. Their management has been reduced to a routine. Another important group of industries undertaken by the State is connected with the conservation of natural resources. It is said that nationalisation of coal, iron and oil is essential in the interests of the community to reduce wastes in working up the mines under competition and to secure a more efficient marketing. State ownership will also result in scientific rationing by regulating production and distribution. Germany has many coal and iron mines worked by State departments. Forests are also under State management for these reasons. A third group of industries where State ownership and management are exercised are those attendant with political and social dangers, if left to private enterprise. For example, the State cannot leave in the hands of private persons the manufacture of arms and ammunitions, poison gas and heavy guns. There is an economic reason behind the State manufacture of its war materials; because the State is the sole consumer and all profits of manufacture can be utilised for the benefit of the whole community. On this principle the State can very well take over any industry that supplies *very largely* Government's requirements. *As a general rule any industry which supplies only one kind of demand and does not admit of intense competition but lends itself to large-scale organisation and routine management can be taken over by the State.* Similarly, for political reasons, strategic railways, waterways, coal mines and iron mines are worked by the State only. Industries which

are run by the State to guard against social dangers are those connected with drink and amusements. Many cities have their own slaughter houses, theatres and opera houses. These are the four groups of industries now under State ownership and management.

### III. SOCIAL

The third great function of the State includes all those activities connected with human welfare. From the year 1840 onwards, England had felt the need for promoting the welfare of industrial workers. The advance of democracy created the necessity for provision of education by the State. The increasing conception of social and economic solidarity and the spread of Socialism have been the cause for a mass of legislation to elevate the lower classes from poverty and misery. The twentieth century has seen an enormous social progress under the guidance of the State.

**Labour Legislation:**—This occupies a foremost place in all welfare activities in almost all countries. It extends to the fixing of hours of employment and of the conditions of work in factories, mines and workshops. Trade Unions are promoted and regulated. Arbitration, Compensation, Minimum Wages etc. are some of the latest developments.

**Education:**—Next in order of magnitude comes education, which was once left to private charity or the care of the church. Education, in the widest sense of the term, is now regarded as the primary duty of the State. Primary education is made free and compulsory in all progressive States. Commercial and technical, secondary and university, education are not only promoted by the State but actually encouraged by subsidising

private charity. The benefits of education are cumulative in their effects and no Government could afford to neglect it.

**Public Health:**—This is another important subject of State action. Hospitals of all kinds are opened by the State. Prevention of diseases by vaccination, sanitary arrangements and the care of infants are also undertaken.

**Social Amelioration:**—It is carried out by all modern States. Poor Relief, (as Sidgwick says, the “chief communistic institution”) housing, unemployment and social insurance, old age and widow’s pensions are some of the schemes worked out in England, the U. S. A. and the continent.

Besides, the State is making ample provision for social amenities, by maintaining public libraries, museums, art galleries, parks, baths, summer resorts etc.

In conclusion, it may be pointed out that these undertakings involve heavy capital expenditure, the return for which can neither be immediate nor in the shape of direct money profits. It is the duty of the State to increase the happiness of the citizens by these “distributional interferences”.

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### EXERCISES

- (1) Give a short account of the growth of state functions.
- (2) Sketch the development of economic policies from the 16th century up to the present time.
- (3) Describe the economic and social activities of a modern State. How far are they desirable and justifiable?

**EXERCISES**

(4) **Classify the functions of Government in a modern State.**

(5) **Under what circumstances is protection desirable?**

(6) **What are the chief difficulties of State enterprises of industries?**

(7) **Examine the scheme of nationalisation of land and mines in England.**

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## THE STATE AND INDUSTRY IN INDIA

### (i)—INDUSTRIAL DEVELOPMENT.

The policy of the East India Company was to discourage Indian industries by all possible means, and before their rule came to an end, the export trade of India in manufactures had reached the vanishing point. There was no departure from this policy under the direct administration of the Crown, the notable exceptions being the construction of productive railways and irrigation works. The extreme poverty of India however convinced the Famine Commission of 1880 of the need for developing industries. The nationalistic movement gave rise to "Swadeshi" and the popular demand found expression in the Indian Industrial Conference of 1905. The Government of Madras successfully developed between 1898 and 1903 the alluminium hollow-ware industry and opened the Department of Industries in 1905. Lord Morley, the Secretary of State for India, refused his sanction for these proposals and the work of pioneering new industries by State assistance was suspended. Then followed the Great War and the need was felt for the supply of war-materials. The Munitions Board greatly helped the development of some industries by purchasing at the rate of Rs. 2 crores a month from Indian firms. The Government of India had already appointed the Indian Industrial Commission in 1916 and its report was published in 1918 recommending the creation of Provincial and Imperial Departments with an all-India service for research. The Government of India Act of 1919 gave a rude shake to the proposals.

since Industries became a transferred subject. The Government of India had to abandon the "maintenance of a uniform industrial policy by a uniform programme" and the creation of Imperial industrial services and leave the direction and execution of industrial policy to the provinces, while confining themselves to "exercise some influence on the development of industries by means of their purchasing activity" and later by their policy of "discriminate protection." The axe of retrenchment fell on many of the ineffective and superfluous services such as the Industrial Intelligence Section, the Inter-Provincial Conferences of the Ministers in charge of Industries, the Labour Bureau and the publication of the "Journal of Indian Industries and Labour", the Monthly Circular and the Bulletins. The work of the Provincial Governments will be detailed presently.

**Technical Education:** Four Engineering Colleges had been in existence from 1898\* which prepared students for Government services. State scholarships for studies abroad were instituted in 1904, with no great results. The U. P. Government grants short-term scholarships to enable men actually in the industry to go abroad and receive the necessary training. But mostly the long-term scholarships are awarded in relation to "possible vacancies in Government service". Since the Reforms, two Technological Colleges have been opened at Cawnpore (chemicals, oils, leather and sugar) and at Dhanbad (coal and iron mining). The Bengal Tanning Institute and the Jamshedpur Technical Institute also offer advanced courses, and the results are on the whole satisfactory. With regard to institutions of the rank of a

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\* Two more were added after 1921.



School there are a good number but the impetus they give to the development of the existing industries or the pioneering of new ones, is infinitesimal.

**Research and Intelligence:**—The Government of India has conducted successful researches in the forest products at the Dehra Dun Institute and the Railways are now using Indian sleepers, instead of importing them from America. Research is conducted in the Cawnpore and Bengal Institutes also. Fresh taxes were imposed on Indigo, Cotton and Lac in the shape of export duties, and the proceeds are allocated for research in those particular industries. Private agencies such as the Tata Institute at Bangalore are also subsidised. Researches in other directions include Geological and Hydro-electric surveys. The supply of commercial intelligence has taken the form of the publication of some journals, the survey of Cottage Industries, and answering queries from businessmen regarding raw-materials, or the processes of manufacture. In Madras, machinery is erected and repairs are undertaken at a small cost.

**Government Purchases:**—The Indian Industrial Commission laid great stress on the importance of Government purchases in India so as to assist the development of industries. A Stores Department was created in 1921. Unfortunately the London Department was not brought under the control of this Department with the result that the largest items of purchase—Military and Railway—are still made in England. The Provincial Governments and the Company Railways have fought shy of this Imperial Department. The rigid rules under which this costly machinery works effected purchases amounting in 1927-28 to 373 lakhs of rupees—

the game is hardly worth the chase. Neither have the provinces any well conceived and unified policy for their various requirements.

**Cottage Industries:**—Handloom weaving is still India's premier industry. The work of the Departments in maintaining schools for instruction, and sending demonstration parties, the organisation of exhibition or the introduction of new types of machinery, such as the fly-shuttle, the sizing and warping machines, have all resulted in sporadic improvements; for the real obstacle to the development of these industries is, as in agriculture, the out-look of the worker. Until education lifts them out of the present mire and the marketing side is sufficiently improved, the work of the Departments will remain like the seeds that fall among thorns.

**Pioneering New Industries.**—The Government still owns and controls the railways and irrigation works. It has 61 railway workshops. The Security Printing Press was started in 1925 and also the Gun and Shell Factory at Cossipore. The Provinces have also been active, Madras taking the lead in the manufacture of inks, vinegar, soap, glue, sugar-cane crushing etc. The Fruit Preserving industry failed in 1926 for want of a market. Fish curing also is unprofitable. Until effective protection is given to such small enterprises, the markets can never be enlarged. The Bihar and Orissa Government Match factory is still working at a loss. Two successful industries started by the Punjab Government, but handed over to private enterprise, are the Turpentine and bobbin industries. The lessons to be drawn from these enterprises are (1) Capital is shy. (2) Technical skill is lacking. (3) Effective protection for successful ventures should be given im-

mediately to develop the home market. (4) The experimental work of the Departments should not ordinarily go beyond the laboratory stage.

**Financial Assistance.**—Madras passed the State Aid to Industries Act in 1922 and has disbursed large sums of money. Over the Carnatic Paper Mills, the loss was immense. The cottage industries have not been benefitted. The other Provinces fared worse, the recipients of the loans being always in arrears in the payment of interest and unable to run their industries satisfactorily. The Burma Government alone suffered a net loss of over 8 lakhs of Rupees on a spinning and weaving company.

Dispassionately viewed, the position of governmental departments is far from satisfactory. The prospect for India lies in the *initiative* of her people, first and foremost, assisted of course at every stage by Government purchases and State credits. There is a grim humour about the verdict of Lord Morley when he said "the new State industry will either remain a petty and ineffective plaything, or will become a costly and hazardous speculation."

#### ii. PROTECTION.

The Indian cry for protection as a means of industrial development is an old one but was recognised by the Government only after the Reforms. The control of the tariff policy is still legally in the hands of the Secretary of State, and its relaxation in favour of the Indian Legislative Assembly when it is in agreement with the Viceroy in Council has been given effect to only by a convention. The Indian Fiscal Commission reported in 1922, recommending the adoption of a policy of 'Discriminate Protection.' Since then, the Government of India have acted in good faith giving

effect, to the recommendations of the 'Tariff Board whenever a case was made out for the protection of a particular industry.

Iron and steel were the first to be protected in 1924. "Substantial duties were imposed on iron and steel including wire, nails, pipes, plates, sheets and certain railway track materials and on steel structures. Bounties to the total extent of Rs. 110 lakhs were paid on the production of steel ingots between October 1924 and March 1927." The results were encouraging. In the Act of 1928 further protection was given with a discrimination between British steel and other foreign steel, which is to expire in 1934. The protection for iron and steel has developed many other industries also.

Bamboo paper industry was the next to be protected. The substitution of a specific duty on imported cement has given an impetus to some produce. Printers' ink has also been encouraged by the enhancement of the duty from  $2\frac{1}{2}$  to 5%. The duties on sulphur and spelter were removed so as to help manufactures. Coal applied for protection but did not make out a strong case. The reduction in railway rates and the certifying authority of the Coal Grading Board have however helped that industry. Petroleum applied for protection but withdrew her case. The excise duty on cotton industry was abolished in 1927 but it was still in the throes of depression. A separate Tariff Board proposed additional duties of 4% on textile imports, but the Government of India refused to give effect to these recommendations. The depression in the industry continues and an Act of 1930 gave some temporary protection by the imposition of 15% duty on imports with heavier preferential rates on Japanese textiles.

## (iii) WELFARE OF LABOUR.

The first enactments regarding the welfare of Labour were the Assam Labour Acts of 1859 and the Employers' and Workmen's Breach of Contract Act of 1860. Factory Acts were passed in 1881 and 1891 against the employment of child labour. In 1901 was passed the First Mines Act. The Factory Act of 1911 was a comprehensive one dealing with every aspect of factory life. The hours for adult workers were limited to 12 daily. The War gave an impetus for strikes and the organisation of the Trade Union Movement. The Reforms secured for them labour representation in the Assembly and the Councils. Labour Commissioners were also appointed in the provinces for collecting statistical information regarding wages and cost of living and the preparation of index numbers. The result is that Labour to-day is an important force in the politics of the country.

The Central Government possesses powers for general legislation for the whole of India. In February 1921 the Government gave effect to the Washington Conventions of the International Labour Office regarding hours of work, unemployment, medical relief and compensation. The Factory Act was further amended in 1923 and 1926. The Mines Act of 1923 has provided for the total exclusion of women before April 1939 and the regulation of shifts. An Act for Compensation for Workmen on the British model and another for Arbitration on the American model were also passed in 1923. The compensation paid amounted to about 10 lakhs of Rupees in 1927. The Trade Union Act was passed in 1926. Mr. Joshi failed to get his Maternity Benefits Bill passed;

so did Mr. Chaman Lal for his Weekly Payments Bill. The whole question of Labour legislation regarding industrial arbitration is before the Royal Commission on Labour.

The provinces have also done something in the way of arbitration, notably in Madras and Bombay. Bombay has constructed at enormous cost single room tenements and rented them at low rates. The provinces also have some powers of legislation, but little has been attempted so far.\*

The large majority of the Indian workers, however, are the rural agricultural labourers. The various Tenancy Acts in the several provinces passed since 1857 are of great significance. After the reforms some extension of activities in the direction of rural water-supply, medical relief and public health has also been undertaken. But the field is large and the efforts are few and scattered.

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\*I have closely followed in this section the narrative of Mr. A. C. Clow in the handy volume published by the Government of India entitled "The State and Industry". The citations are also from that book. For fuller details the student may be referred to it.

## CHAPTER III

### PUBLIC EXPENDITURE

"Public expenditure is the distribution by the sovereign power of the revenues of the State for the services of the public powers".

*Nicholson.*

#### (i) IMPORTANCE OF THE PROBLEM

What general problems does public expenditure raise, one might ask. The defence forces, administration of justice, education, public works and social welfare schemes—all require large outlays of money and the executive, through the various departments, spends the sums for purposes approved by the Legislature. It seems natural therefore to think that the why and the how of the question are purely a matter for the art of finance. It is in this sense that Lervoy Beaulieu declared that expenditure does not form part of the subject. "A State has wants: it does not belong to us to know what they are, and what they ought to be.....A writer on finance can sincerely lament that States spend too much, but his real task lies in showing how a State can obtain supplies".<sup>1</sup>

This view is entirely incorrect for various reasons. It is of immense significance to know 'what they are'. No one in modern democracies would be unconcerned if the money allotted for public education is spent on building a new palace for the Viceroy or on recreation grounds for the officials of Simla. Money appropriated for one item is to be spent only on that item and on

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1. Quoted by Bastable. Introduction. P. 5.

nothing else. Nor are we less interested in what expenditure 'ought to be'; "why should we waste so much on armaments" is the question asked by all the nations of today. The Legislature and even the voter are anxious that nothing more than what is absolutely necessary for safety should be spent on defences. We go further and demand that more and more money should be spent on this and that item of social services. In fine, public expenditure is subjected to much analysis and scrutiny. The great problem in modern Finance, (as in the U. S. A.) is not so much how to raise the revenues, but how to spend the revenues wisely. Wise expenditure raises several principles and is as much an art as that of collecting sufficient revenues.

From an opposite direction has public expenditure assumed an overwhelming importance. The phenomenal growth of expenditure has caused considerable alarm. Wars have also pushed up expenditures to abnormal heights. Heavy borrowings were made with all the consequences of repayment, the depression of industries and the breakdown of the credit mechanism. Everywhere there is a cry for retrenchment and economy, and the reconsideration of all the problems of expenditure in the light of sound economic doctrines, to check extravagance and improve the efficiency of administration; in other words, to secure efficiency in expenditure.

Apart from these considerations, the student of finance must needs investigate expenditure for several reasons. (1) It is true that expenditure is more or less fixed by previous legislation and the concern of the statesman is only to raise the funds. But this is not



the whole truth about expenditure. As with the individual, so with the State, expenditure is ultimately limited by revenue. Thus there lies back of the question an amount that may be economically spent by the State. This consideration alone raises a number of fundamental problems, such as the determination of the total volume of expenditure that may be incurred at any time. Expenditure and taxation are closely interdependent just as production is determined by consumption. Prof. Bastable says: "The question of expenditure is just as much a financial problem as that of revenue",<sup>2</sup>

Secondly, the effects of expenditure are an interesting subject for study. In view of the enormous reactions of public expenditure on economic and social services, it is necessary to analyse them and estimate their magnitude. For the effects of public expenditure offer in most cases rules for the distribution of public funds over each item and on each department.

Thirdly, the neglect of expenditure in the past was due to the difficulty of arriving at general principles. Expenditure, as Prof. Bastable says is in a sense 'extra-financial'. Historical and political considerations determine very largely the extent of expenditure in most States. But at the present time it is no longer of so much force. Each pound spent is put to the test of economic consideration more and more. As such we are able to construct a body of rules capable of general application on the lines of the marginal doctrine as predicted by Bastable.

Nevertheless there are many serious limitations. A scheme of taxation—say income-tax can well be

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2. Introduction P. 6.

adopted with ease in India when it has succeeded in England. But what is good for England in a particular form of expenditure may be either harmful or unnecessary in Germany. England as an imperial power might build cruisers and battleships of heavy tonnage which Germany need not. Thus expenditure is conditioned by the social economic and political factors much more than taxation is. The variations in individual countries are also numerous that the enumeration of general principles will be limited to the statement of a few broad tendencies of policy.

### 3. CLASSIFICATION.

Classification is not very essential: matter is more essential than form. But it will reveal the essential facts regarding the nature and cost of each service. It facilitates wise budgetting, accounting and auditing and is also useful for comparisons. But the classifications will differ according to the view point of the classifier. The following are some of the classifications adopted by writers on Finance,

From the point of view of the functions of Government, Mill distinguishes between necessary and optional expenditure: Adams between protective, commercial and developmental; and Shirras between primary and secondary.

Prof. Plehn proposed a classification on the basis of benefit conferred by expenditure, for example, defence confers a *common benefit* while poor relief only on a particular section of the community. Administration of justice confers a *special benefit* on certain people but is to be treated as conferring a common benefit as well.

But protection to a home industry, he maintains, benefits only some individuals. There is no need to point out that this distinction is erroneous, for it fails to take account of the complexity of social relations and the impossibility of determining the measure of benefit conferred to individuals. Moreover the idea of benefit, except in local expenditures, would give us a wrong approach to the problems of taxation.

Prof. Nicholson says "the proper basis of classification ought to be the whole amount of revenue obtained by the State in return for services rendered". Accordingly, his scheme is as follows: Expenditure without any direct return or even with positive loss, *e.g.* war; with indirect return, *e.g.* education; with partial direct return *e.g.* subsidised railways; with full direct return and even with profit, *e.g.* Post Office or any commercial undertaking. The one great objection to this classification is that the State's primary aim in its expenditure policy is not "revenue" in money, but advantages to the community in the form of goods and services; and the Finance Minister whose motive is revenue can hardly be progressive in outlook.

Period of duration is another point of view from which classifications have been made. Thus Prof. Bastable distinguishes between Normal and Abnormal expenditure. "Normal Expenditure is that which occurs at stated periods and in a regular manner and is therefore capable of being estimated and provided for in the budget."<sup>3</sup> Abnormal expenditure is that which is unforeseen or that which involves heavy capital commitments. But as he himself admits, it is not always

easy to draw the boundary line between the two. Similar to this is the classification proposed by the Brussels Conference: 'Ordinary' and "Extraordinary", with a further classification of 'recurring' and 'non-recurring' expenditure. This classification is of advantage from the point of view of the budget.

Some writers have classified expenditure as national, local and semi-national according to the authorities who actually disburse the sums and the character of such expenditures.

Prof. Dalton has given an interesting scheme of classification. He divides expenditure into Grants and Purchase Prices, which corresponds to the division of public revenues into taxes and fees. 'Grants are free contributions by the State in the shape of money or services: Old Age Pensions, and Education. Purchase Prices are those for which the state actually spends money *e.g.* defence, administration of justice. Interest on Public Debts and Pensions may be regarded either as purchase price or as grants: grants, when we look to their character at present, but purchase price in their origin in the past. The purchase price may contain an element of grant, *e.g.*—a Public Utility run at a loss but made good out of taxation—and a grant may contain an element of purchase price *e.g.* subsidising private education. The conception of ability to receive grants and the distribution of grants may be proportional, progressive or degressive.<sup>4</sup>

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<sup>4</sup> Dalton, Public Finance. Ch. XVII. The whole chapter is instructive for the many ingenious twists which characterise the author's arguments in such cases.

Evidently a clever adaptation but a very much improved one is the classification proposed by Prof. Pigou. Exhaustive and Transfer are the twofold divisions he adopts. That part of the expenditure which is devoted to the *purchase of goods and services*, (army, navy, etc) and is also *spent up* without yielding *direct revenues* is called exhaustive. There are other items—education, interest on internal debt, old age pensions etc., which are merely *transfers* of direct or indirect purchasing power to the beneficiaries. This distinction is of great practical utility, since it helps to isolate “real” expenditure from the total expenditure. For, transfer expenditure is in reality no deduction at all from the stock of national wealth, except the cost of administrations. It is also useful for instituting comparisons between the different countries to arrive at tax-burdens. “Exhaustive Expenditure is the test of real expenditure in any country”. In 1924 according to Bowley and Stamp, exhaustive expenditure in Great Britain has risen from 9½% to 12% only of the taxable income; while transfer expenditure has risen from 1½% to 7½%. 5

#### 4. GROWTH AND EXTENT OF EXPENDITURE.

In the beginning of the 19th century, as soon as the Napoleonic wars were over it was thought that the summit of public expenditures had been reached and that there will be a return to the normal level of the pre-war era. These hopes were falsified. The expenditure since then on armaments alone have been appalling, while wars have also added their quota. Enormous sums of money have also been spent on edu-

education, public health and the development of the administrative machinery. The most alarming feature about these expenditures is that they have increased relatively much faster than the increase of population and of national wealth. An interesting example is found in Great Britain, where expenditure has increased fortyfold between 1815 and 1913. In 1930, the total expenditure stands at the colossal figure of nearly £800 millions. This implies that a corresponding amount of revenue by taxation is to be raised. The real remedy, urge the reformers, lies in cutting down ruthlessly this extravagant expenditure.

The following arguments are adduced by those who regard the enormous increase in public expenditures as a sign of extravagance, waste and inefficiency.

(1) All Government expenditure, they say, obeys the law of "increasing cost", and if unchecked, will result in extravagance. The argument has much force, and the cure lies in a vigilant and more organised public opinion; in increased control over the budget and in a more efficient audit service. (2) Secondly, the development of public credit, the facility which the State offers for private investment in its Bonds and Savings Certificates, and the growth of banking facilities—have all tended to place an increasing reliance on public loans for new expenditures. (3) Another reason for increased expenditures is the enormous construction of public works, which according to the critics, have been untimely and ill-planned.

In contrast with this pessimistic view are the views of those who hold that the expenditures of the 19th and the 20th centuries are not merely inevitable but in no way extravagant. The enor-

mous increase has been in desirable directions only, *e. g.* social services. We have tangible and intangible "national assets" as a cover against the debts. In other words, expenditure on education, medical services, unemployment, public utilities, etc. is really transfer expenditure and has not caused any diminution of national wealth. It has rather resulted in the increased efficiency of the worker and improved production. There is a further consideration. Everywhere the national monetary unit has shrunk in value and all prices have gone up. The commodities and services required for public purposes have now been purchased at a higher cost. There has also been an enormous increase of population and concentration in cities with the result that the increased expenditure had to be incurred for many services.

The truth is that expenditures have been pushed in many directions owing to social progress and the development of the credit mechanism, but have also been accompanied by a certain amount of extravagance. The causes for such a state of affairs being the same as we notice in the political sphere—the apathy and the ignorance of the voter regarding financial matters, the influence of the press and the orator, the selfishness of the members of the Legislatures and the inefficiency of the executive. It cannot be said to the credit of any country that its expenditure has been wisely planned and most economically carried out over any long period. There have been many failings, much drifting and a good deal of mismanagement.\*<sup>6</sup>

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\*. For a very illuminating discussion of these problems by applying the facts of psychology, see Guest: "Public Expenditures."

## 5. CANONS OF TAXATION APPLIED.

The absence of well established canons in the domain of expenditure may be said to have been the principal cause for drift, waste and insufficiency. Prof. Nicholson argues that the principles of taxation can be applied for expenditure on the basis of the assumption that *expenditure is limited by revenue*<sup>7</sup>. These, however, are not fundamental canons like those of Adam Smith, but merely practical rules of great value for administration.

1. **Equity**:—Many interesting analogies between taxation and expenditure can be drawn from the point of view of equity. Just as equality in taxation means the distribution of the burden according to the ability to contribute, so, equality in expenditure means the distribution of the benefit of expenditure according to the need to receive it. (Expenditure on local services and on commercial undertakings, however, must obey a different law). Minimum disutility and minimum aggregate sacrifice may be analogous to maximum utility and maximum social advantage in expenditure. Further, just as taxation involves a reduction of the social income, expenditure should increase or at least not lessen the productive powers of society. Equity implies also that public money should be spent on public objects and not to favour private interests. Viewed comprehensively the principle of equity in expenditure is as fundamental as in taxation.

2. **Certainty**:—Public expenditure should be definite, certain and open to criticism by the public. Secrecy is a grave danger and corrupts finance. Publi-

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7. Political Economy Vol. 3.



city and audit are the necessary conditions for efficient administration.

**3. Convenience:**—Administrative arrangements for the disbursement of funds should be simple and official practice should not be hampered by red-tapism. Further the whole scheme of expenditure should be free from conflicting jurisdictions, duplications and overlappings.

**4. Economy:**—Economy is the wise distribution of expenditure, and not retrenchment or cutting down of useful expenditure. The problem of high salaries, Government purchases etc., should be carefully scrutinised and treated by the correct standards of economy. Mr. Snowden said once "Economy consists in exacting 20 shillings value for every pound spent". Considerations of economy involve also the encouragement and supplementing of private expenditure wherever possible (e.g. education, public health activities, etc.). True economy in expenditure, above all, consists in wise investment in human resources. Wise spending is real saving.

**5. Elasticity:**—A good system of expenditure should be self-regulating like a good system of taxation. As a rule, it is not possible to cut down expenditure from year to year, or increase it according to the variations in income. But a wise system of expenditure must provide a regulation for a gradual increase on necessary services. This implies that the statesman should take a long view of the problems of his country and the projects should be conceived with a breadth of vision. And prudent borrowings for capital expenditure is also a corollary of the same principle. As the society progresses, the statesman should arrange for a gradual diminution of outlays on armaments, prison and police

forces. Poor rates ought to fall with the increase in the efficiency of the workers.

6. **Sanction:**—As in taxation, so in expenditure, sanction is an important rule. No expenditure should be incurred without the previous sanction of the Legislature and the heads of the various departments. No authority should be allowed to sanction beyond its own powers. And money appropriated for a particular item should be spent on that item only. Any deviations from these general practices must be ratified in the Legislature in the form of reappropriation, supplementary grants etc.

7. **Surplus:**—“The canon of surplus is the avoidance of deficits.”<sup>9</sup> Balanced budgets must be the rule; but as the International Financial Conference of Brussels laid down, a moderate surplus is a safer course. Some writers believe in deficit financing as it would induce economy, but the post-War experience has shown the need for a moderate surplus.

#### 6. GENERAL PRINCIPLES OF EXPENDITURE.

It is extremely difficult to lay down general principles of expenditure of universal application for the reasons already given. Further, the State is bound by

9. Shirras, Public Finance. Book ii, Ch. IV, P. 45.

10. “In his personal disbursements man does not go through lightning calculations of utility and cost.....There is still less reason to think that he practises such calculations in playing his part in governmental spending.....In the field of public expenditure utility and cost are connected, if at all, only in a hit-and-hide fashion. Often benefit is received without any apparent sacrifice on the part of the beneficiary just as often costs are paid without the payer being conscious of having received any direct benefit” Guest—Public Expenditure. P. 146,7.

certain contractual obligations to the foreigners, (interest on foreign debt) or to its own citizens (internal debt, pay of civil and military officers etc.) and it is only in the sphere of the commercial and the social expenditure that any control or freedom of action is possible. Yet, within these limits, it is possible to lay down a few rules of general application.

Expenditure cannot be endlessly expanded; it is limited by revenue. Raising of revenue has its own cost side. So as a *general rule* the benefits of expenditure should be counter balanced by the sacrifice of revenue.

The law with regard to the *aggregate of normal, national and local\** may therefore be formulated as follows:—"Expenditure should be pushed in all directions up to the point at which the satisfaction obtained from the last shilling expended is equal to the satisfaction lost in taxation." (Pigou.) The soundness of the present expenditure of any country should be tested in the light of this law.

As regards the distribution of expenditure over the several items, another principle based on marginal utility may be laid down. Just as the individual derives the maximum utility with a given sum by so arranging that each item yields an *equi-marginal* utility, so should the State distribute expenditure in such a way "that the last shilling devoted to each item yields the same marginal return"<sup>9</sup> (Pigou). The efficiency of each service—and not the money value—is of importance.

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\* This qualification is my own and is of great significance.

9. Book II "Ch. V. P. 53".

11. Dalton P. 9.

With regard to the distributional aspect of expenditure, the exhaustive and transfer expenditure are treated as one whole.

The law of transfer expenditure demands that it should secure maximum social advantage. Maximum social advantage can be obtained by organising better production and effecting a better distribution of wealth. Production can be increased directly by developing the material resources, by giving facilities for Capital, Labour and organizing ability and indirectly by increasing the efficiency of the workers. Distribution can be improved by redressing the inequalities of incomes and wealth by wise expenditures on social services, such as free education for the poor etc. "Expenditure involves the transference of purchasing power affecting production and distribution..... The best system of Public Finance is that which secures the maximum social advantages from the operations which it conducts."

Another important law of expenditure arising from the consideration that the statesman is a trustee of the future no less than of the present is that he should discount the future as little as possible. A wise expenditure policy should prefer a larger social advantage in the future to a smaller one in the present. Expenditure on railways, irrigation works, or on human welfare, yield their full results only after a long lapse of time; and the Finance Minister who refuses to embark upon a far-sighted policy of such expenditures would not be serving the best interests of the country. Such expenditure would involve heavy borrowings, but since they are for productive purposes, no nation should shirk the responsibility. It may be added that this law is a supplement to the first law. The first law had reference

only to the normal exhaustive expenditure, which is to be met out of revenues, whereas the present one covers all cases of expenditure including those on war.

There is one more consideration. How far could expenditure on social services be expanded?

Important principles are involved in this sphere of State activities. In the first place there are certain services, such as elementary education, which are "below the market margin." That is to say, it has a highly elastic demand, and its gratis supply in unlimited quantities would not lead to waste. It is on these kinds of services only that the State can push expenditure to its utmost limits. To get a maximum of net collective utility in such cases the costs should be financed from the proceeds of progressive taxation<sup>12</sup>. But where gratis supply would lead to waste as when free postal or railway services are provided for all classes of people, the State should levy fees and charges. In certain cases it may charge below the cost of service to increase the consumers' surplus, or above the cost to earn a revenue. At any rate the field of social expenditure is a very limited one. Not only should there be no direct waste but there should not be indirect effects leading to inefficiency. A misdirected poor relief is mischievous, while the absence of it is to be deeply deplored.

#### 7. THE EFFECTS OF EXPENDITURE.

We have touched upon most of the effects of public expenditures in the preceding sections. They may be looked at from different points of view—how they affect production and distribution; from the point of view of

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12. Guest: Public Expenditure P. 157.

the three functions of Government or of the character of the expenditures, transfer and exhaustive. A detailed study and analysis will be of great benefit to judge the soundness or otherwise of a particular financial system.

Exhaustive expenditure—on war and armaments is very often regarded as unproductive. Such a narrow view of the primary expenditure of the Governments fails to see that it is in making "social life secure and orderly" that we can make the other activities possible. Nevertheless it is true that at the present time too much has been spent on defence forces. "A 50% reduction in the armed forces of all nations would leave them all in much the same apparent state of security or insecurity as before; and the same is true of a 50% increase"<sup>14</sup>. Armaments should be limited all over the world to the level of an international police force so that the resources may be spent on productive purposes for securing economic welfare. For expenditure on defence forces implies the withdrawal of hundreds of people who would otherwise be employed in the manufacture of goods and services. "Men cannot eat guns or bayonets or high explosives." Progress must lead to a curtailment of these items. But the small success achieved by the recent Naval Conference of the big Five Powers shows the many difficulties ahead, and world peace is still a long way off.

Transfer expenditure to promote production directly, such as the giving of bounties and subsidies, grants for research, propaganda or the construction of public works from State resources, or indirectly by the regulation of currency, the laws of trade unions etc. should be wisely spent. Apart from the difficulty

14. Dalton: Public Finance P. 206.

15. Ibid P. 207.

of successful management of industrial matters by Government departments, there are also involved the responsibilities of risks and losses. The example of the U. S. A. shows us the scope for corruption in administration. There are also the difficulties of raising the capital to meet the expenditures.

Transfer expenditure on wise social services is of great significance in a modern State. (1) "When we spend public money wisely in schemes for improving the health of people in education, in industrial development, we are saving in the best sense". (Mr. Snowden) (2) When such expenditures result in improved efficiency of the worker production is stimulated. (3) Direct money grants also increase the efficiency of the workers by enabling them to give better education for their children. This is the case for Old Age Pensions, Widow's Pensions, Unemployment Insurance etc. These grants increase the desire to work and save, since the demand for increased savings is very great in modern societies. (4) The diversion of funds in this way may have many direct and indirect effects on industry and employment. (5) The greatest effect in recent times as a result of this progressive Socialistic policy is the redressing of inequalities. No State robs the rich and pays the poor; but the provision of free services and goods out of funds derived from progressive taxation has this important distributional result. These in short are the economic effects of public expenditures.

There are some—especially the capitalists—who take an alarmistic view of these transactions and regard State expenditure on these items as waste. The individual

spends better than the Government, is their maxim. They deplore the invasion of the domain of private charity by the State officials and point to it as an evil in itself. They allege that the springs of voluntary actions are dried up. There is another great objection which is pointed out by Mr. Hillaire Belloc. "Any great reduction therein (Social services) is very difficult of accomplishment; a whole machine is at work, performing certain functions, which if it be cut down in its activity, will threaten disaster. They have an effect like the ratchets of a toothed wheel which permit of movement in one direction, but forbid any slipping backwards". Critics also point to the changed mentality of the recipients of State doles, their demoralisation and proclivity to indolence and luxurious living. It is easy to point out this and many more evils of collective spending. Collective spending was invoked and has been in operation only because of the failure of private spending in these matters. "Collective spending is more economical, more fruitful and more far-seeing and produces greater social advantages than private spending". The task of practical statesmanship lies in remedying the defects and improving the efficiency of the services rather than trying to pull them up by the roots.

#### 8. COMPARATIVE ESTIMATES.

The field of comparative finance is an unexplored region. The fact that it is untrodden shows its essential difficulties. Some writers on finance have proceeded to give a comparative statement of the expenditures in various countries; while they are useful in *conjunction* with comparative tax receipts, alone they are of little



value. Even then the estimates are only of a limited value, whether they be on the basis of the total expenditure of the State, or expenditure per head of the population, or expenditure in the ratios of national income.

These estimates can hardly be accurate, especially in relation to the total national income. There are many factors which enter into total expenditure which the statistician cannot estimate in terms of money. Firstly, there are the historical antecedents or political considerations for certain items of expenditure—purely extra-financial. Secondly, all the “unreal elements” such as price variations in each national currency, the transfer expenditure, etc. should be allowed for and deducted. Thirdly, national income is hard to estimate and even if it is accurately calculated, it is no test of the taxable capacity of the people. National resources also should be taken into consideration. It has been said that “national income determines the present and national resources the prospective scale of expenditure”. Fourthly, the particular phase of political, industrial and social development should also be taken into consideration; for expenditure is largely dependent on them. Finally, the most important factor is the character and the object of each outlay and the efficiency of the services that administer it. The effects of expenditure permeate in every sphere of life and are difficult of measurement or apportionment. As such any comparative estimate is bound to be extremely defective; if satisfactorily devised, it is likely to lose its value!

## EXERCISES.

1. Adam says that public expenditure should be approached from the public point of view—neither that of the individual or of the State. Explain.
  2. 'Expenditure is the real end of the financial system'. Explain and illustrate.
  3. What analogies can you draw between taxation and expenditure?
  4. Classify the several items of expenditure in India as purchase prices and grants and comment on them.
  5. What is productive expenditure?
  6. "Good finance consists more in the spending than in the collecting of revenue" (Gladstone). Discuss.
  7. "Nowadays we are all socialists". Explain this with reference to the spending of England.
  8. "The very best of all plans of finance is to spend little". Discuss.
  9. "Our great need is economy"
  10. "The central problem of public finance is no less and no more than the problem of securing the best disposal of the economic resources of the community." Illustrate. See Dalton chs. XIX & XIX.
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## III. INDIAN EXPENDITURES.

The classification and main items of expenditure are as follows for the year ending 31st March, 1927. The figures are from the Statistical Abstract :

	Central.	Provincial.	Percentage.
1. Direct demands on revenue	419,95160	105,476,889	6'2
2. Salt and other capital outlay charged to revenue	718,385	299,62,08	1'6
3. Railway Revenue account	280595177	106904	1'5
4. Capital outlay on irrigation charged to revenue	31288	183,357,21	0'3
5. Posts and Telegraphs			
(a) Revenue account	5725453		0'3
(b) Capital charged to revenue	185,673,9		
6. Debt Services			
(a) Interest on debt	373139743	64650364	20'0
(b) Reduction of debt	167449672	29474801	
7. General Administration	16595637	111201423	5'2
8. Education	3796653	117248770	5'3
9. Medical	3011068	36479747	1'7
10. Public Health	1751654	18539854	0'9
11. Agriculture	2658601	21494842	1'6
12. Industries	8203636	6699812	0'6
13. Aviation	1306299	...	0'06
14. Civil Works	18974160	107701317	5'5
15. Political Pensions	3060699	...	
16. Superannuation allowances	26174720	39246742	6'0
17. Military Services	609163889	...	26'0
18. Other items.	...	...	...

**Defence.** The expenditure on defence has shown a progressive increase. In 1875 it stood at Rs. 24 crores, and in 1895 it had risen to Rs. 30 crores. In the pre-War year (1913) it was still Rs. 30 crores but had gone up to Rs. 69 crores in 1922. Since then considerable reductions have been made and the present scale is still as high as Rs. 60 crores, though the Inchcape Committee had recommended its reduction to below Rs. 50 crores.

The army in India is maintained at war strength since there are no reserves to fall back upon. A mere reduction to peace scale by 20% without affecting the strength of the British element would mean, according to the estimate of the Inchcape Committee a saving of nearly Rs. 3½ crores annually. The present system of recruitment in England entails enormous extra charges, which in many cases could be curtailed. If, however, the strength of the Indian and Anglo-Indian elements could be increased, the savings would be immense. At present the purchase of the stores is made in England and the Inchcape Committee recommended a reduction from Rs. 14 crores to Rs. 8 crores and observed that "the country cannot afford the lock up of capital this way."

Besides the expenditure on army, the Government incurs a large outlay on the Royal Indian Air Force, and the Royal Indian Navy, to the latter of which an annual contribution of Rs. 15 lakhs is made.

**Debt Services.**—The outstanding public debt in India in 1927, central and provincial, amounted to Rs. 604·11 crores, composed of Treasury Bills in the hands of the Public (6·95) and of the Paper Currency Reserve (39·15), loans (390·61), Post Office Savings Bank, Cash certificates, Provident Funds etc. (127·46)

Provincial balances (8'9) and other items (21'85). The bulk of the loans is provided by a few rich and the British residents in India, and thus the payment of interest does not constitute an addition to the total wealth of the country. The debt registered in England amounts to Rs. 470'05 crores and the annual interest charges constitute a deduction of national wealth with all its adverse effects on the export trade. The 'productive assets' against these debts are to the extent of Rs. 872'73 crores leaving a balance of uncovered obligations at Rs. 170'86 crores. The productive assets also represent foreign capital and enterprise.

**Civil Administration.**—Under this head must be included the cost of all civil and judicial establishments and of the Legislatures: Political pensions and superannuation charges absorb Rs. 7 crores or 6% of the total expenditure. Expenditure in England to meet the cost of the India Office, of the Office of the High Commissioner and commissions to the Bank of England for the management of the Public Debt is also a large item amounting to £469,100.

The Retrenchment Committee observed that in several cases, economies have not been effected owing to decentralisation after the reforms. The establishments and secretariats are maintained at their pre-reform standard. To give one instance, they observed "there is very little justification for the retention of the Educational Commissioner, the Bureau of Education, or the Central Advisory Board—or indeed for the continuance of the Department as a separate entity." If it is remembered that over 90% of the posts carrying a salary of Rs. 1,000 and above per mensem are held by

non-Indians, the cost of civil administration appears in its true aspect. Not only is it disproportionate and excessive but is also an exhaustive one from the point of view of its effects.

**Developmental Expenditure.** As compared with the total exhaustive expenditure, transfer expenditure is only a trifle. The development departments such as agriculture, industries and education receive not even 10%. What is worse, the services are ineffective. Regarding the expenditure on education, by far the greatest of the social services, the Hartog Committee emphatically assert that "throughout the whole educational system, there is waste and ineffectiveness. In the primary system.....the waste is appalling...The wastage in the case of girls is even more serious than in the case of boys.....".

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## CHAPTER IV. PUBLIC REVENUES.

"See a head; hit it."

### 1. SOURCES OF REVENUES.

A system of public expenditure requires as its basis a system of public revenues just as consumption is balanced by production in private economy. The problems of expenditure suggest the corresponding problems of revenue; expenditure on common benefit is to be met out of the general revenue raised from all the citizens irrespective of benefit: this we call taxation. And expenditure on special benefit is to be met out of particular revenues collected from the beneficiaries; these we call fees, prices and special assessments. Again, the State may have private property like an individual and derive incomes.

Adam Smith classified all these sources of income under two heads;—(1). The source which "peculiarly belongs to the Sovereign or Commonwealth, and which is independent of the people", (2) and "the source of the revenues of the people". This broad distinction is very convenient and brings the essential difference between the receipts of the Government. Some writers regard that these two sources represent the two aspects—the Public or 'corporate personality' and the 'Sovereign' character of the State. Under the first category must be placed the receipts from State domains, forests, fisheries and public industries. It may be remarked that in the past receipts from these sources

were large and almost the mainstay of the Exchequer. But in the development of the idea of taxation, it is now the second source which yields the bulk of the revenues.

The incomes derived by the State from the revenues of the people are many-sided. The following may be enumerated: (1) Bequests, gifts and donations for public benefactions. (2) Tributes, indemnities and legacies whether arising out of war or otherwise. (3) Penalties, fines, expropriations imposed by the courts. (4) Fees, prices and special assessments contributed by individuals in return for benefits received. (5) Taxes of all kinds.

The loans raised by the State either from the citizens or from the foreigners should be treated as a separate category, since they constitute an "obligation" or liabilities and not "receipts" in the true sense of the term.

Prof. Adams proposed a detailed classification of the various sources of incomes as follows:—(1) *Direct* revenues: those which consist of receipts from public domains and industries; gratuities and gifts; confiscations and indemnities. The basis of this distinction is that this class of receipts "constitutes a positive addition to the social income" while the second class of revenues called (2) "*Derivative*" is in reality a "transfer of a part of the earnings of the citizens to the State". These consist of fines and taxes. (3) The revenues derived from the sale of bonds, Treasury Notes etc., (Loans) are *anticipatory* incomes.<sup>1</sup> Needless to say that in spite of skilful wording, this classification is defective in some respects. Gratuities, gifts and confiscations are derived from private incomes (unless they

<sup>1</sup> Finance, pp 219—228.



are from foreigners) and cannot be said to constitute a "positive addition to the social income". Loans cannot be, strictly speaking, regarded as "revenues".

Prof. Seligman's classification is also three-fold. "From the stand point of the individual all contribution to the Government are either *gratuitous*, *contractual* or *compulsory*.<sup>2</sup> Examples of the first are obvious. Contractual contributions are those resting on a definite agreement between the Government and the citizens. (Fees, prices, and charges). Compulsory payments stand in sharp contrast with the other two, since they are demanded by the State in virtue of its sovereign character. There are many terms of these payments; expropriation; fines and penalties; taxes. In spite of the fact that this classification brings out the differences between the various public receipts, it cannot be said to be perfect. The contractual revenues are not the result of a "free contract" between the citizen and the State; they are as much imposed by the sovereign character of the State as are the taxes and are also compulsory. But one great merit is that it brings out the essential character of the taxes, and loans can be well called 'contractual revenues.

On the whole it seems best to adhere to the distinction made by Adam Smith with a slight change of phraseology. For any classification must serve a practical purpose; in this case to throw light on the character of public incomes. As Prof. Dalton puts it, "The most important practical distinction is between taxation and other sources of income." Hence it is best to classify public incomes as (1) non-tax revenues and

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2. Essays in Taxation. Ch. IX Sect. 1.

(2) tax revenues. Vague as it may be, the distinction brings out the important difference between the two important sources of public revenues.

## 2. WHAT ARE TAXES?

Considerable difficulties arise when we attempt to distinguish further between the various kinds of tax-revenues, such as fees, prices and special assessments. It is of some peculiar interest to notice that it involves many administrative difficulties in America where if the courts decide a particular impost as not taxes the States may refuse to pay them. For the student of finance, the embarrassment is not a little when he is called upon to assess the tax burdens of a country. For there is "a division of opinion among the best authorities as to where taxation begins and ends." Says Prof. Edgeworth, "what is the best definition of a tax is an interminable enquiry." But the distinctions should be made at least as far as possible, and 'taxes' will be taken up first.

Prof. Seligman defines a tax as a 'compulsory contribution from the person to the Government to defray expenses incurred in the common interest of all, without special reference to "special benefits conferred."

This definition brings out the two most important elements of taxes: first that it is a 'compulsory exaction', and second that it carries no guarantee of a *quid pro quo*. Dr. Pierson points out a third element in taxes. "What constitutes a characteristic feature of the tax is that there exists no direct connexion between it and any particular item of public expenditure..... Thousands of services are recompensed out of what we pay; but none of us can say of an ordinary tax what

services it is destined to recompense. In the case of a foe, there is never the least uncertainty on this point." <sup>3</sup>

The foregoing analysis implies many other ideas which may be further elaborated. Firstly, the contribution is from the *income* of the private citizen, and therefore dependent on the institution of private property: thus it is a derivative revenue in the phraseology of Prof. Adams. Secondly, compulsion on the part of the state implies its sovereign character, which, however, is not arbitrary, but limited by constitutional law and public opinion; thus the compulsion of the citizen to pay taxes is not a physical coercion, but a constitutional and a legal one. In fact a tax is considered even as a duty and a privilege, and not a burden. The constitutionality of the tax system suggests also the idea that the levy and the collection of the taxes should conform to the principles of the regular codes of the state. The assessment and collection of taxes are for public purposes only, and it will be considered tyrannical if they are used for private purposes. <sup>4</sup>

An elaborate definition of a tax may therefore be given as follows: *A tax is a legally compulsory contribution made by the citizens from their private resources to the state for public purposes, but levied and collected according to the established principles of the legal system by the lawful authorities carefully limited to the defined needs and carrying no guarantee of direct measurable benefit.*

### 3. FINES, FEES, PRICES AND SPECIAL ASSESSMENTS

Besides taxes, public receipts include a number of charges made by the government for its public enterprises of all kinds—administrative, commercial and

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3. Principles, Vol. ii, P. 376. 4.

Adams: Finance P. 194 ff.

social. It is necessary to distinguish between these various *charges* to bring out "the divergencies of substance that underlie similarities in money form". Thus fines, fees, prices and special assessments are more or less compulsory, proceed from the incomes of private persons, and made in return for some service, but differ in many respects from each other, and considerably from taxes.

1. *Fines*:—Fines and penalties are levied not in accordance with the needs of the state but solely as a punishment on the individual. As Prof. Dalton points out, the distinction between taxes and penalties is one of motive. "A public authority imposes taxes mainly to obtain revenue and enacts penalties mainly to deter from certain actions." Prof. Bastable objects to placing fines in a separate category. "The yield of the fines is trivial, and their relation to financial organisations of the state is remote" 5. Apart from the consideration of motive, there does not seem to be any difference between a fine and other kinds of payments.

With regard to fees, there are great divergencies of opinion. At one extreme is Bastable's view that they are "co-ordinate with taxes" 6. Dr. Pierson defines the word to cover any "direct payment for state or communal services as *distinguished* from payment for *merchandise*" 7, while some other writers would have them limited to charges incidental to the administration of law and order only. Thus postal rates would be considered as fees by Pierson but not by others. Prof. Seligman is at the opposite extreme with

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5. Public Finance, Book ii, Ch. 1, P. 165.

6. Ibid.

7. Principles, Vol. ii, P.

microscopic distinctions. Fees are defined as "payments for each recurring service undertaken by the government primarily in the public interest but conferring a measurable special advantage on the fee payer" <sup>8</sup> (Court fees, license charges, registration fees etc). The important distinctions that emerge from the above definition are (1) that a fee is a "special contribution" as a tax is a "general contribution." (2) The special benefit is present and in certain cases measurable. (3) Normally the fee does not exceed the cost of the service. "If the charge is less than cost the special benefit increases until finally there is no charge, because there is no special benefit. If the charge is more than cost the benefit is *protanto* converted into a special burden until finally the charge is all tax, because it is all burden, and no special benefit." <sup>9</sup> Thus the predominant characteristic of the fee is the presence of the first two elements. It is not dependant on the amount of the charge, from which point of view the distinction is very difficult to draw.

The third category consists of certain charges made for the sale of commodities and services. The distinguishing factor in such payments is not either the amount of the charge or the character of the business but the presence of the *fiscal motive primarily* and service secondarily. In the words of Seligman, a price is a payment for a service or a commodity sold by Government 'primarily for the special benefit of the individual but secondarily in the interest of the community'. (Railway, Post Office, Water supply etc.) The objection that can be raised to this otherwise good definition is that it is extremely difficult to distinguish the presence of public or

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8. Essays in Taxation, P. 304.

9. Ibid.

special purpose primarily from that of a secondary one. To argue that the Post Office is still for the interest of the individual primarily is not a little farfetched.

The fourth category is special assessment. It is an American invention. It is a method of absorbing to the treasury any *unearned increment occurring to any locality or property as a result of the performance of a state action, e. g.,* the opening of a road, a canal or a street tramway. If the Government is called upon to perform such services to any *particular* locality the expenditure should be met by the locality concerned and not from the general taxes. This special assessment resembles a tax in that it is a compulsory payment and not contractual as price; but it differs from the tax in that the payer has received a definite *quid pro quo*. But this charge in strict justice should be proportioned to the benefit. It resembles a price since it is a return for a service rendered but different from it since it is compulsory. Prof. Bastable while agreeing with the general trend of Seligman's arguments, adds that a special assessment is a particular form of local finance and has apparently little or no place in general receipts. The rates charged are proportional and sometimes even progressive.

In conclusion, it must be said that there are distinct characteristics for each of the payments considered; but it does not mean that they are mutually exclusive. The one gradually shades into the other. Acute distinctions can be made theoretically, but cannot be applied with satisfactory results in practice. As Dalton would say, "the search for classification is more instructive:

than classification when found". The confusion arises mainly on the consideration of the amount of the charge with reference to benefit. But if we could keep the motive in each case distinct, the problem becomes simple. Thus in the case of fees, the motive is to deter people; of fees, regulation; of prices, revenue; and of special assessments, special benefits. Taxes are levied for common purposes without reference to any *quid pro quo*.

## EXERCISES

1. Enumerate the public receipts of a modern state.
  2. Under what heads will you classify public incomes?
  3. "Fees are co-ordinate with taxes." (Bastable). Discuss.
  4. "What is the best definition of a tax is an interminable enquiry?" (Edgeworth). Discuss.
  5. Compare and contrast: (1) Taxes and Fees. (2) Fees and Prices. (3) Prices and Special assessments.
  6. "Taxes are one-sided transfers of goods and services." Examine.
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## CHAPTER V.

### REGULATION OF NON-TAX RECEIPTS

#### 1. GENERAL CONSIDERATIONS

The public receipts from state domains state-operated industries and services are so different in the different countries that it is extremely difficult to lay down general principles of very wide application.

Further, as has been pointed out already, non-tax receipts contain elements of taxation. It is not possible to isolate them in practice and treat them separately.

Prof. Bastable notices another important limitation: The amount of such receipts have "no essential connection with the public wants.....They will not increase in times of pressure nor will they diminish when funds are abundant, and they therefore deserve the epithet "mechanical" as opposed to "organic" which has been given to taxes".

Another limiting consideration of the non-tax receipts of the state is that gross-receipts should be distinguished from net receipts. Thus, in the case of a state owned railway allowances must be made for interest charges and working expenses. Net revenue is the only sound basis for comparing the merits of the various sources of non-tax receipts in two different countries.

Lastly, the revenue from these sources are diminishing in all progressive states. The proportion of non-tax receipts to taxes is 14 in England; 55 in Australia; 33 in India; 21 in the U. S. A; 11 and 54 in France and



Italy respectively. The bulk of the revenues is raised to-day from taxation.

Nevertheless, an examination of the principles that should underlie non-tax receipts is necessary and is also in accord with the practice of the older writers on finance.

The revenue yielding property of most states consists of lands, forests and mines. Much of it is a survival from the feudal and mediaeval times, when the sovereign had raised all the revenues from his royal demesne. Two distinct problems are raised in connection with the present public property. (1) Should the states retain and manage them or dispose of them for private enterprise? (2) If the balance of advantage lies with the state ownership, how far is nationalisation desirable and possible? It is convenient to study the problem under three heads:

#### i. LANDS

State ownership and management of lands is advocated for many reasons. (1) Since land is a free gift of nature and its extent limited, unlike other forms of property, the state ought to be the owner and distributor. (2) In times of stress, landed property will serve as security for raising loans. This argument has lost all its force owing to the development of credit, and the possibility of state loans being raised without security. (3) State management would bring better returns in agriculture, since the state can undertake research, introduce improvements, offer better wages and tenancy legislation. The excessive fragmentation, which is due to private ownership and transmission to heirs will be easily avoided. (4) Finally, all the unearned increments due to

the conjuncture of circumstances and the full economic rent could be absorbed for the Treasury, if land would pass to the state.

On the other hand, there are equally weighty arguments against state ownership from the stand-point of production. The normal tendency in agriculture is towards smaller holdings since agricultural operations cannot be reduced to a routine, and as such ill-suited to governmental organisation. Corruption will become rampant in the assessment and collection of rentals. From the stand-point of revenues, the question of unearned increment must be set against possible losses in value under a system of state ownership. The Treasury will lose an enormous amount of general and local taxes which are now levied on land. Further, the cost of the upkeep of lands must also be deducted. From the stand-point of administration, state management is most difficult. "It amounts to the creation of a new public department engaged in countless dealings with what is the most intricate and complicated form of public property; arrangements as to valuation, the renewals of leases, allowances for improvements, abatements for unexpected losses, the maintenance of audit of innumerable accounts etc." (Bastable).

Further, difficulties arise if state ownership of *all* lands is to be brought about by nationalisation. In the first place, the morality and ethics of the scheme is to be decided. Secondly, during the period of transition much disturbance and disorganisation would take place with disastrous effects on production. Thirdly, when full compensation is paid, the interest charges on the debt created for redemption must be taken account of

and provided for in the Budget. Finally, "the reason for objecting to nationalisation is that we must not impose on the living generation heavy sacrifices for the sake of an uncertain future." (Pierson).

If ever nationalisation was practicable, it was in the case of countries like Australia, New Zealand, the United States and Canada. But all states failed to realize the future. They sold away lands to attract immigrants, and came to grief when railway building and other public enterprises required land but could not be obtained for anything less than fabulous prices. Probably the best policy would have been to retain state rights to the ownership of land, while agriculture could have been encouraged by a system of long leases and government enterprises.

Nationalisation is now impossible. The conclusion forced upon us both by experience and theory is that private ownership of land, with powers of state interference for public purposes and taxation of land for revenue purposes is the best policy. State ownership and management of land are ruled out of court.

## ii. FORESTS.

With forests the case is different. The creation and the maintenance of forests is a *work of time*, skill and much expenditure, scarcely attracting private enterprise. The influence of forests on *rainfall* and on the general prosperity of the country is so great that what affects the society as a whole should be undertaken by the state. Further, private ownership of such properties are fraught with grave disadvantages by their possible destruction by private individuals for innumerable

advantages. Hence forests must be owned and managed by the public authorities, both central and local.

Revenue from forests must only be a secondary consideration, since forests confer great benefits on agriculture. But forest products such as timber, charcoal, fuel, etc., must be sold at competitive prices, where the government supply has to face the private supplies.

### iii. MINERALS.

Gold and silver have long been appropriated by the state. Similarly, treasure troves. The argument that these and the mines that produce them should be owned by the state rests on the theory that minerals are a free gift of nature and ought not to be given away to enrich a few individuals at the expense of the community. Conservation of resources, elimination of wastes due to competition are further advantages claimed for state ownership.

But there are grave practical difficulties. The highly speculative character of the mines does not attract private enterprise, unless great stimulus is offered. If private competition leads to some waste, it does also lead to competitive prices like other commodities. "Nature is bountiful in these resources and no injury can arise to the consumers as a result of private ownership". (Adams.)

The principle regarding incomes from mines may, therefore, be laid down as follows: Private enterprise is to be encouraged, but social dangers must be avoided by a system of royalties, and a special taxation of mines which form the basis of natural monopoly.

## 3. FINANCE OF PUBLIC INDUSTRIES.

We have already described the industries run by the State. Such industries proceed from one or other of the following motives. Political consideration makes the state undertake its own manufacture of armaments and munitions; maintain arsenals and dockyards. *The social motive* appears in the octopoid industries (Post Office, telegraph, telephone, irrigation and power canals; roads and railways; water, gas and electricity works). State operation of these industries will confer great social utilities. When the state pioneers new industries or works its own forests, mines or develops any of her natural resources, the motive is purely economic. Finally, some states keep the manufacture of salt or tobacco or alcohol in their own hands for *Fiscal* purposes—*i.e.*, for raising revenue. Since "profit" is not in consideration in the case of numbers 1 and 3 it remains to consider the general principles that can be laid down in the other two cases.

The character of state industries determines very largely the nature of the prices charged. "The public price is a governmental price and is defined to the idea of the highest social utility."<sup>2</sup> The appropriate price policy must therefore vary with the various industries in question. Thus, in those industries, where the 'public purpose' element is predominant (e.g. Post Office) the Government may charge below cost and make good the loss from general revenues, or at cost; where the 'private purpose' element is predominant, (e.g. Local Railways, water works etc.) strictly at cost; where there is a mixed interest the prices may be such that part is

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2. Adams, P. 231.

met from general revenues and part from individuals. Prof. Dalton calls the first two principles as the 'voluntary price principle' and 'the compulsory cost of service principle' respectively.

These are only counsels of perfection. Nowhere in actual practice can we draw the dividing line sharply to mark off 'private purpose' from 'public purpose' and no government is scrupulous to adhere strictly to the theoretical maxims. Very often the public prices are arbitrary prices fixed with an eye to convenience and ease of administration. Some services may be continued, even though they may not be supported by fees. (Indian Telegraph service). Sometimes no prices are charged because of administrative difficulties. "This explains, for example, the free use of roads, turnpike gates being inconvenient, and the free postage allowed to the British army during the war, where the practical difficulty of selling stamps in the trenches reinforced sentimental considerations. In all such cases of free supply, the voluntary price principle disappears and the 'general taxation' principle takes place".<sup>3</sup> Finally every government tries to raise some revenue out of these services either to make good a deficit in some kindred service or as a policy of indirect taxation. Other things being equal, the revenue principle should be deprecated. Higher railway rates would hamper trade and higher postal rates would check free communications and higher water rates may entrench on the necessities of the poorer citizens.

With regard to industries undertaken for the obvious purpose of revenue, no special principles need be laid

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3. Dalton, P. 178.

low. But the commodities chosen for manufacture should be such as to have a greater degree of inelasticity of demand; there must also be present a 'social purpose'. Thus tobacco and alcohol are the two important government monopolies in the world. As a rule, it is not advisable to enlarge this domain and monopolise the manufacture of necessaries of life such as salt or matches as is done in India and France respectively: except, of course, when there are no alternative methods of taxing the poor. A case of doubtful expediency is the lottery monopoly of the Italian government. The fiscal monopolies of the government should have a predominant social motive.

#### 4. CHARGES FOR PUBLIC SERVICES.

It remains to consider the principles underlying the charges for *services* rendered by the government as distinct from the sale of commodities from state operated industries. We use "services" in a narrow sense, omitting the consideration of railway postal and other public utility services, which are properly classed with industries.

Obviously there are many services which are not intended for sale, but are indispensable for the very existence of the state: *e.g.*, defence, police, courts and so forth. Such services are not "specifically beneficial to particular individuals." Hence no charges should be made for them. Dr. Dalton calls this the general taxation principle. Under this category fall those free services such as elementary education, health services and poor relief.

But wherever 'specifically beneficial' services are rendered to particular individuals it is just and fair that

as a rule they should be paid for *in proportion to their use*. Fixing of rates on this principle is indeed a difficult problem, and a considerable latitude should be given to the public authorities to use their discretion. The numerous small services such as the issue of passports, birth certificates and licenses, the registration of documents and the like, performed by the civil servants should be paid for. A case on which differences of opinion exist is whether the individual going to a court of law to recover his claims or redress of wrongs done to him by his neighbours should be charged in proportion to the use of service. Justice is to be administered gratis, and in crown cases, this principle is still followed but where the individual receives something specifically beneficial it is fair that he should be made to contribute. This rule applies to all cases of civil litigation. Even very high and prohibitive fees may be charged in a country where going to law-courts may be considered a respectable pastime and profitable occupation.

With regard to certain services whose benefits are cumulative in their effects but not likely to be appreciated by the people, not only gratis supply is essential but should also be made compulsory; education, vaccination, registration of births etc., are the examples of this principle.

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## EXERCISES.

(1) "Payment for services rendered by a public authority may be made according to any of the three alternative principles (General taxation principle; cost of service principle; and voluntary price principle) or according to various combinations of these principles." (Dalton). Illustrate from Indian examples.

(2) Why are general principles of non-tax receipts of limited application?

(3) Consider briefly the effects of increased postal rates, heavy railway freights and stamp fees in India.

(4) Is the tax on Indian salt a price—a public monopoly price?

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## NON-TAX REVENUES IN INDIA.

### 1. PUBLIC INDUSTRIES.

**Railways.** The most important source of non-tax revenue for the Government of India is, of course, the Railways. All the railways at the present time are State property and yield a surplus revenue of over Rs. 9 crores. The total capital expenditure in 1927 exclusive of free grant of land is estimated at Rs. 640 crores.

The first lines were opened under the guarantee system and the loss to public revenues between 1845 and 1880 on this account alone amounted to £ 25 millions. The contract system was finally adopted in 1880 according to which private companies were enlisted to operate the railways for a term of 99 years. The State provides the bulk of the capital and the companies are entitled to a guaranteed interest on the capital they had contributed. The surplus profits are made over to the Government. Since 1900 onwards the railways have showed surpluses.

**Organisation of Control.** Since the companies were merely lease-holders and the initiation and supervision of the entire work lay with the Government a Directorate was organised in 1874 to work under the Department of Public Works. With the expansion of work, there were established three territorial divisions (Central, Western, and North Eastern) and a separate directorate for each, in 1900. There were many difficulties both in the matter of organisation of control and in regard to finances throughout this period. The recommendations of a

special officer, Sir Thomas Robertson, in 1901, did not improve matters very much. Hence the appointment of the Acworth Committee in 1821. The recommendations of this Committee were mainly threefold: (1) control to be exercised by a separate Department of Communications. (2) The separation of railway finances from the general budget. (3) Devolution of detailed management to local organisations. With regard to the first, the Government of India decided to constitute an *ad hoc* body and revived the Railway Board, strengthening it by the appointment of a Chief Commissioner for Railways, a Financial Adviser, five Directors, four deputy Directors, a Technical officer, a Secretary and a Deputy Secretary. The result of this arrangement has been most unfortunate.

**Separation of Finances.** According to a Resolution dated 7th Sept. 1924, the Indian Legislative Assembly has provided for the separation of railway finance on the following terms: (1) The Government of India is to receive a fixed contribution of 1 per cent on the total capital at charge on all commercial lines from the *net receipts*. (2) In addition, the Government should be given 1/5 of the surplus remaining after the payment of the fixed contribution (3) In return the Government should bear the *entire* interest on capital at charge and also the losses in the working of strategic railways and also the provision of capital for new programmes. (4) Any surplus remaining after the payment of items (1) and (2) should be constituted as a Railway Reserve Fund and the Government can take only a third of this reserve, if ever it exceeds Rs 3 crores.

**Financial results:** In spite of the large revenues which the railways yield, the financial position is by no

means satisfactory. The ineffective control of the Assembly over the Railway Board, and of the Railway Board over the individual companies have resulted in extravagant working expenses. The Inchcape Committee laments that "*heavy working expenses eat into the profits; capital raised at 6% does not yield 5%*". They record that the increase in working expenses has been over 130% between 1914 and 1926 and mention, amongst other things, the increase in the administrative and clerical staff, replacements and renewals. "The stocks held are on an extravagant scale," (P. 117) and their book value is considerably above the market price, in some cases by as much as 50%. Two remedies suggest themselves—Indianisation and better administrative and popular control. "It is impossible to control the details of all the railways from Delhi or Simla as at present."

**Irrigation works.** Next in importance comes irrigation. The works have been classified as Productive and Protective: the former financed mostly out of loans yielding a net return on capital within ten years of their construction, and the latter out of current revenues or Famine Insurance Grant. The total capital charge for all works amount to Rs. 115 crores (1927) and the return from all sources is  $6\frac{1}{2}$  per cent. In the Punjab a return of 15% is obtained. The total irrigated area is 27 million acres.

The variety of conditions in India owing to difference in rainfall, tenures and crops makes it impossible for a uniform policy of water-rates. The rates vary from province to province and are charged both on the cultivator and on the owner. The following are typical: (1) A consolidated wet rate on the settlement principle of half-net theory—chiefly in Madras. (2) An enhanced rate on

the same principle when Government *guarantees* supply of water—chiefly in Burma. (3) A fixed rate varying according to the nature of the irrigation work and of the crop grown. These are also called 'Agreement Rates—chiefly in Bombay and the Central Provinces. The agreement is for a period of five or six years, and in certain cases, the rates are charged only on the area actually cultivated. For example, sugarcane pays a water-rate of Rs. 45 per acre. (4) A permanent and fixed charge is sometimes levied on the owners for special advantages conferred by the productive irrigation work. Thus Rs. 25 per acre are levied on the ryots of the Kistna Delta; a 'special canal advantage rate' in the Punjab and so on.

In many cases the water rates are excessive and in a few cases they are deficient. The Taxation Enquiry Committee have made the following recommendations in respect of these charges: (1) The charge for water should be separated from the land revenue. (2) The minimum should be the "cost of service"; the maximum should be "the whole of the increase in return from the land except such portion as will be just sufficient to induce the cultivator to take the water (Para 138). (3) The rates should be revised periodically, say, once in ten years with reference to prices and conditions of cultivation. These conclusions, theoretically perfect, are unfortunately impracticable owing to the numerous administrative complexities it would raise.

**Post and Telegraphs.** The Inchcape Committee estimated the total capital at charge up to 1922 at nearly Rs. 20 crores. The Post Office showed a surplus of Rs. 21 lakhs in 1927 and the Telegraph Department a deficit of over 11 lakhs. The volume of Post Office business is largely dependent on trade and industrial conditions.

The decreased earnings of these departments are attributed to increased salaries as recommended by the Heselire Committee. It is reasonable that the Government should give up revenue from this source since the service is an essential and necessary service. There is one more item worthy of notice. The Indo-European Telegraph Department managed by a private company but financed by the Government of India to the extent of capital expenditure amounting to nearly Rs. 2 crores is not paying its way owing to heavy working expenses.

## 2. FEES FOR PUBLIC SERVICES.

**Stamp Duties.** The Stamp Duty is a mode of collecting taxes, rather than a tax by itself. It was "discovered in Holland in response to a proclamation of the States-General offering a prize for the invention of a new tax".<sup>1</sup> It has the great merit of convenience and ease of collection. It collects itself. The tax is also very productive, but its incidences are very unequal. Bentham regarded the stamp tax on sales of property as intervening at a distressful season upon personal misfortune. Taxer on commerical instruments act as a check on banking development and a restraint on trade. Practical financiers, however, have adhered to this form of taxation merely for its convenience and productivity.

The stamp duty was introduced into India in 1868. It is payable on petitions, plaints and other documents filed before the Civil, Criminal and Revenue courts. Even at the time of their introduction they were officially

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1. Shirras, Public Finance, P. 353.

admitted as being "much higher than the rates prevailing in England". The other class of stamp duties payable on instruments of commercial transactions—non-judicial—such as bonds, cheques, bills of exchange also produces a large revenue. Since the Reforms the receipts from the former go to the provinces and those from the latter to the Central Government; the total revenues collected for the year ending 31st March, 1927 were nearly 13 crores and 27 lakhs respectively. In a predominantly agricultural country, taxes on transfer of property oppress the ryots and taxes on commercial instruments interfere with banking and trade development.

The Taxation Enquiry Committee notices that "the duty on bills in India is.....nearly double that in England and nearly 5 times that in the United States, and that on bonds 4 times that in England and no less than 10 times that in the United States. Moreover the disparity in the case of bonds has been accentuated by the fact that in some cases provincial legislatures have increased the rates of duty by 25 to 50 per cent" (Para 284). The Committee recommends reduction of rates regarding Bonds and Mortgages, deeds of Reconveyance, cancellation, transfers of interests and of adoption. But in the case of settlement, release, partition, partnership and articles of association of registered companies they recommend slight increases.

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Details of Rates of important documents.

Mortgage. As. 12 for every 1,000 Rs.

Reconveyance of mortgaged property 1% subject to a maximum of Rs. 10.

Deeds of cancellation a fixed duty of Rs. 5.

Deeds of adoption       "       "       Rs. 10.

**Registration Fees:** The fees charged for registration of documents constitute another large item of taxation on transactions. The Taxation Enquiry Committee observe; "There is a large surplus\* varying from 29 to 70% over the *cost*\* of the Department.....but the rates do not exceed the value of the *benefit*\* which registration confers". The rates are different in the different provinces. Increased revenue may be obtained by extending the category of documents compulsorily registrable.

**Court Fees.** Fees for the administration of justice is a medieval idea and is indefensible in a modern state, theoretically speaking. Practical considerations necessitate the levy of fees in all civil cases. "A vast amount of litigation arises from complications of facts produced by the neglects of the litigants themselves or their predecessors in title by unbusinesslike habits, by heedlessness or by sheer folly"; sometimes they have the deterrent effect of repressing "groundless and litigious suits and complaints". Further, there are a few cases where the benefit is special to particular individuals such as the administration of a bankrupt's property and it is just that their costs should be borne by the individuals<sup>2</sup>. But to justify the deriving of large surplus

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Settlements... $\frac{1}{2}$ % on the value of the property settled.

Gifts ...1% " "

Release, same as bond, subject to a maximum of Rs. 5.

Articles of Association and Memoranda fixed duties of Rs. 25 and 15 respectively.

The Contract Note (not compulsory) 1 Anna for every Ra. 10,000 subject to a maximum of Rs. 10.

\*The Italics are mine. In view of the aggregate burdens imposed by taxation of all kinds, it is unjustifiable to take such a wrong view of charging for public services.

2. Taxation Enquiry Committee Report—P. 246.



revenues *without reference to the aggregate tax burdens of the community* on the ground that "the cost of the courts is only a part of the much wider service by which the state upholds the law and secures the rights of property and it may be fairly urged that a litigant who has infringed the law should make a special contribution to the cost of this service," is a little arbitrary. At present there are several cases where the fees charged are excessive, especially at the commencement of a suit, amounting to "a practical negation of justice". There are many cases where inadequate fees are charged, such as civil revision petitions, applications for orders of arrest, attachment or injunctions or for compensations therefrom ; applications to set aside decrees and for the winding up of a company<sup>4</sup>. The Committee also proposes to standardise the rates and make them uniform in all provinces.

Besides the court fees, there are many provincial fees for registration of motor vehicles, petroleum storage, license fees for fire arms and for the manufacture of explosives.

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## CHAPTER VI

### PRINCIPLES OF TAXATION

"It is of the utmost importance that not only that our rulers should tax well but that the citizens should understand about taxation, recognise it as good, when it is good and pay it cheerfully when it is equitable and well distributed". [Withers. *Our Money and the State*,

#### 1. INTRODUCTORY.

Taxation is essentially a recent development but has become the mainstay of the revenues of the State. It is the largest single problem in modern finance.

The essential characteristics of taxation should not be forgotten. A tax is a compulsory charge on the private resources of the citizens for services rendered to the society in common without any reference to the special measurable benefit to the tax payers.

This at once suggests many difficult problems. (1) On what items of private resources shall taxes be imposed? (2) On what basis shall the contributions be collected? (3) How are the taxes to be administered without inconvenience to the individual, injury to his resources and loss of revenue to the State? The subject matter of taxation is a study of all these comprehensive problems.

#### 2. SOURCES OF TAXES.

Taxes are drawn from the private resources of the citizens which consist in (1) the *stocks* of goods and services for consumption, use or enjoyment: *e.g.*, houses.

domestic servants, carriages etc. (2) *Incoming* wealth which is used for consumption. (3) *Incoming* wealth which is *saved for future uses* or invested in business or used for repairs and renewals of capital goods. (4) The *capital goods* such as factories, plant and raw materials. (5) *Inherited* wealth. (6) *New accretions* such as wind-falls or lucky fortunes due to social increments in the value of properties. (7) *Incomes arising in foreign countries* from investments and services.

Losses under any of these heads are a deduction from the aggregate funds available for taxation. Such losses are due to wastage, wear and tear of capital stocks depreciation, total or partial destruction owing to fire, sinking in seas, etc.

The funds available for taxation are never a fixed amount. For example, if people effect economies in their private consumption, more can be made available for taxation. Similarly, the converse is true. In normal times, however, it is considered that the taxable resources are somehow fixed.

### 3. THE BENEFIT PRINCIPLE.

On what basis should taxes be levied on the different individuals?

Benefit seems the most reasonable basis. It was also the earliest to be adopted and was the most obvious one in the feudal epoch when the measure of protection was in direct proportion to the holding of a fief or benefice. The idea survived as late as the beginning of the nineteenth century. Thiers, the famous President of French Republic, declared that the tax is an 'insurance prem.

ium'. It finds favour even in modern times among those who object to steeply progressive taxation.

The benefit principle is defective and fallacious for many reasons. It was probably a good doctrine, when one could say, 'Am I my brother's keeper?'; but, in the modern society, where economic and social relationships are intensely intricate, it is idle to boost up one's *individual benefit* as the measure of one's obligations to the State. The individualistic point of view contained in the benefit principle is in direct conflict with the social principle of modern finance.\*

Secondly, it is not possible to *levy* taxes on this basis. Not only is it difficult to say *what* benefit each person receives, but also to appraise its exact measure. Sometimes, it will be found that benefit is in inverse ratio to one's wealth. The beggar and the infirm are protected in the same way as the millionaire; no special police guards the latter. Neither does it cost the Government twice as much to protect a man with £ 20,000 as a man with £ 10,000. If benefit were the measure of our obligations to the State we shall have to revert to the days of the 'ancient regime', when the large masses of the poor were ground down by oppressive taxes.

The benefit theory rests also on a wrong political philosophy. The State is not a business corporation and the citizens are not shareholders in it. They form an

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\* "If we consider how passive resisters are forced to contribute to church schools, quakers to the navy, anarchists to the police, churchmen to godless schools, republicans to the monarch's purse, taxes are paid not for nothing in return, but, what is worse, for something which the tax-payers conceive to be more mischievous than if the money had been cast into the sea." [Jones.]

organic part of a living organism with common rights and common duties. Taxation should therefore be based upon this principle of community of interests, irrespective of benefits received.

But in a very narrow field—local finance—the benefit principle still holds good and is the measure of one's taxes. A good example is the water-rate. There is, however, no conflict of principles, for it will be unfair to make all pay when a *special* service has been rendered to a particular individual *only*. It is this characteristic which distinguishes local rates of a beneficial kind from the taxes to the Central Government: not that the latter do not confer any benefit to the tax-payer but that the service is undertaken for the community as a whole.

#### 4. THE ABILITY PRINCIPLES

"The measure of obligation to the support of the government is, in the State as in the family, the capacity on the part of the individual to contribute to that support".<sup>1</sup>

What is the *test* of ability to contribute? Not mental capacity or virtue! Personal pride may give certain people great ability to pay. As Marshall said, if taxes collected on jewellery were published in local newspapers, some persons might be tempted to over state rather than understate their possessions.<sup>2</sup> The test must be an *economic* test.

Property seems the most obvious, but a very deceptive one. Incomes from properties of the same size will differ. Fictitious debts may be created to obtain deduc-

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1. Seligman

2. Stamp, Principles of Taxation, P. 10.

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tions. Unless distinction is made between consumption use and production use of property, industry will be crippled. In actual practice taxation of property has broken down.

Expenditure suggests itself as another test. The rich under this scheme will not pay in proportion to their ability. A man with Rs 10,000 does not spend ten times on commodities as a man with Rs 1,000. Taxation of commodities—that is the only way of taxing expenditure effectively—is very regressive.

Family income is probably the best test. Not the mere quantity of it alone. The *time* required to earn it and the *circumstances* under which it has arisen and the *family situation* of the individuals are all important factors.

Windfalls, inherited wealth, excess profits, war wealth, incomes from lotteries, give "special ability" to the beneficiaries for such accretions are not due to the efforts and sacrifices made by them. It may be argued that the state must compensate the individuals in cases of losses and misfortunes, say, in lottery or the fall in the value of land. But if the State *had enacted* laws that these accretions should go to the State, the injustice disappears!

When we substitute ability as a measure of one's obligations to the State instead of benefit, taxation becomes extremely subjective. Taxes are no longer *in rem* but *in persona*; Prof. Seligman characterises it as a change from a 'specific' form of taxation to a 'personal' form.



## 5. PROPORTIONAL TAXATION.

Having ascertained the test of a man's ability to contribute, the practical problem is the devising of a method by which the burden of taxation may be distributed equally among all the citizens.

The classical economists argued that a tax levied at a constant rate, always as a definite percentage irrespective of the amount assessed secures equality of burden. For example, if an income of £ 1000 pays a tax of £ 50, an income of £ 10,000 would pay £ 500 and so on; the underlying idea being that man's ability is measured by his possessions.

This theory is, however, untenable when subjected to a closer analysis. It has the merit of simplicity; as Savy put it, "proportional taxation does not need definition: it is the rule of three".

## 6. PROGRESSIVE TAXATION

**Arguments for :** Ability increases more rapidly with the increase in the level of incomes: the rates should therefore be progressive. Adam Smith himself has advocated it. "It is not very unreasonable that the rich should contribute to the public expense not only in proportion to their revenue but *something more in proportion*.\*

2. Historically speaking, financial practices are not against progressive taxation. In the Athens of the 5th and the 4th century B. C., taxation was based on this principle exclusively.

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\*There is a strong argument for progression from what Adam Smith has pointed out. In a society where rewards for services are distributed on the basis of efficiency, greater, where efficiency is greater, progressive contributions resting on ability should be the only rule.

9. It is also contended that the irregularities of wealth are due in some measure to the failure of the State to protect the weak, especially the labourers and the consumers, against the fraud and the exploitation of the rich. Further, most of the tariffs, commercial privileges, banking facilities etc. have been made for the benefit of the rich. Progressive taxation, is now said to be necessary to remove inequalities of wealth arising out of the 'many acts of commission and omission' by the State.

**Arguments Against.**—It is too late to renounce progressive taxation as it is superfluous to defend it. But even when Bastable wrote his book public opinion was still dominated by the ideas of Mill who called it "graduated robbery" and of Newmarch who characterized it as 'confiscation'. "When you abandon the plain principle of progression, you are at sea without rudder and compass." Surely to the plain man progression is arbitrary and this was the first and in the earlier days the most powerful argument against it. Even to-day the argument has not lost its force. For, there are many conservative financiers who regard modern taxation as excessive, amounting to confiscation, when the State takes over 50% of a man's earnings if he exceeds a certain limit.

2. The second objection is that progressive taxation would adversely affect production. Capital accumulation will be directly diminished; the desire to work and save will be checked; and hence the future productivity. Mill stated as follows: "To tax the larger incomes at a higher percentage than the smaller is to lay a tax on industry and economy; to impose a penalty on people

for having worked harder and saved more than their neighbours." 5

3. The marginal utility basis has been questioned by Sir Sydney Chapman. The marginal utility of money is a relative conception; it varies with different people according to their circumstances and temperaments. The standards of consumption in the several social scales are fixed by custom and habit. Thus a man with £ 500 may always be 'hard up', while another with the same income may be 'well off.' "Differences in relative sacrifice can never be objectively measured."<sup>6</sup> But the argument is not of great weight, since the State has actually devised the means of measuring the relative sacrifices of individuals, though only roughly. The effect of marginal utility test should be applied after the tax was imposed; A very clever doctor already earning £ 3000 a year may not care to accept an additional appointment on £ 400 a year, because after taxation, he may be left with only £ 200. He exclaims: "Not worth while for the effort!" Thus "marginal utility operates twice over and in the same direction."<sup>7</sup> If this experience were *universal* we could accept this objection

4. It remains to examine the socio-political principle of Wagner, according to which taxation is to be an instrument of redressing the inequalities of wealth. Mill conceded it in the case of inherited wealth for the heirs 'have not earned them by exertion'. All that he admitted was that the State should diminish the 'inequality of opportunities' by wise legislation and

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5. Book v. Ch. ii.

6. Quoted by Stamp, Principles of Taxation. P. 45.

7. Sir J. C. Stamp. Wealth and Taxable Capacity. P. 116.

*different classes is different* the argument leads not to equal but to unequal distribution." (Edgeworth).

It is the practical difficulties that really matter. High taxation, especially of this kind would lead to dishonesty and evasion or may be self-destructive since the springs of wealth will be dried up. Some compensation may be expected by the increased efficiency and purchasing power of the masses. There is also the general presumption against large surpluses in the Treasury. But if the needs of the State increase, the incomes multiply and administration becomes efficient, it is not unreasonable to expect the adoption of this principle in practice.

### 8. EQUITY.

That taxation should be fair and just or equitable in other words, is a self-evident proposition; but when an attempt is made to translate the precept into practice no two people will be found to agree as to what is exactly equitable. "Equity," said Seldon, "is a roughish thing". Yet it is the one fundamental principle underlying all political and economic organisation, and it is needless to emphasise that in a democratic society taxes should be apportioned on the basis of equity between citizens and citizens. Apart from the ethical consideration, equal distribution of the burdens of taxation would tend to economise social energy and make for the greatest social efficiency. Unequal treatment causes a feeling of hurt; and that in itself represses the will to save, and will breed a sense of insecurity all round; for every one will be nervous that he will be the next victim of an arbitrary exaction. Savings and accumulations are discouraged and production will be checked.

But the real problem is how to construct an equitable tax system. Certain obvious truths suggest themselves. No individual or group of individuals should be exempted from taxation on class considerations, just as the nobility of France was in the eighteenth century. Secondly, as Sidgwick said, "similar persons should be treated similarly". But in actual life no two persons are found to be exactly similar either in economic situation or temperament, and it will be impossible to render justice to each individual on this basis. Practical convenience requires therefore that "different persons should be treated similarly unless they are dissimilar in some *relevant* respect." (Pigou). What are these relevant respects? They may be the total gross income, the nature of income, family circumstances and the source of income. Thus if A and B have the same income but are dissimilar in these respects, it is clear that they should be taxed differently. This we may say is the absolute law of equity.

Many other subsidiary rules can be deduced from this main principle:

(1) Taxation should be based on some definite economic fact—such as property or income or expenditure. Since the principle of ability asserts that income is the best criterion, taxation should fall on income only. It should not be on any other fact—say red-haired men and one-eyed ladies being taxed and the others exempted or on fashions and beauty or vice of men. (2) We must allow also a certain amount of reasonable margin for the taxpayer's consumption and production requirements. This is done by fixing conventional standards for the different classes and businesses, and also by fixing an exemption limit, incomes below which are usually

exempt. (3) Just as we should allow a reasonable minimum for consumption, we should also not absorb the whole of man's surplus. That is to say taxation should never be a hundred per cent. Somewhere a limit is to be fixed between zero and one hundred so that adequate revenue is raised without injury to the tax payer and industrial production. (4) Equity demands also that those who are unable to bear any burden should be exempted from taxation: nay, it may go further and assert that such people ought to be helped from State expenditures.

Our deductions are vague and provide no self-acting rule like proportional taxation. Equity is indeed an "elusive mistress"; always fascinating but never within firm grasp. Yet administrators and economists have harnessed the principle into a working formula. For in taxation equity is "economy tempered by conservatism". The ideal should somehow be translated into practice. It must however be borne in mind that when we speak of equity in taxation, it covers the whole field, and not any particular tax. Thus commodity taxes may be regressive and therefore inequitable; but they are compensated by steeply progressive taxes on the rich. There is also another aspect of equity, which is seldom given the prominence it deserves. Equity is applicable to expenditure also: if the poor are taxed through their necessities of life and are given many free services, such as elementary education etc., inequity vanishes. If taxation checks production on the one hand, and expenditure increases production, equity is realized. Equity is the highest common factor of

## 9. ADAM SMITH'S CANONS

The underlying principles of taxation already discussed have been embodied in the four famous maxims of taxation. They are best stated in his own words.

1. *Equality*: The subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities.

2. *Certainty*: The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributors and to every other person.

3. *Convenience*: Every tax ought to be so levied at the time or in the manner it is most likely to be convenient for the contributor of it.

4. *Economy*: Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State. The State takes out more if the cost of collection is great or the industry is discouraged and if it leads to fines and penalties, evasions and smugglings.

Much has been written on these canons. Both extravagant praises and adverse criticisms have been showered. English economists as a whole have spoken in praise. The German and the American writers have been hostile. Cohn ridiculed them as "Smithianisms". Walker, considered them "at best trivial". Yet, in spite of these criticisms, the Smithian canons have held their ground and would continue to do so as long as our financial systems last.

Sir Josiah Stamp gave a surprisingly new orientation to these canons by viewing them from the three stand-points, of the individual, the State and the community. In other words, the distribution of the burdens on the individuals should be equal; the State ought not to suffer any loss of revenue or inconveniences owing to conflicting tax-jurisdictions; the effects of taxation on the community should be beneficial both for production and for distribution.\* These elaborations are ingenious and helpful but only confirm the soundness of Adam Smith's canons.

Wagner insists on the need for a careful distinction in each particular aspect of taxation and lays down separate canons under each head. Thus the financial aspect requires the canons of adequacy and elasticity, the economic aspect, the canon of productivity, the ethical aspect the canon of equity and the administrative aspect the canons of convenience and economy. No doubt this interpretation like that of Stamp's is an aid to clearness; all the same it is only an interpretation.\*

Prof. Bastable agrees with the well-known criticism of these canons, namely that the first alone is a fundamental principle while the rest are merely 'administrative precepts'. The first is a 'rule of taxation' and the rest 'rules respecting taxes'. This however is a narrow interpretation. Viewed as a whole, each canon has a

\* The Newmarch Lectures for 1919.

\* "The attempt to separate the Smithian rules according to their character, though in appearance plausible, tends to obscure their really compound basis.....The true point of view for understanding these maxims is to regard them not as economic, ethical or constitutional but as essentially financial". (Bastable).



connection with every other, and all of them have a bearing on the tax system. Their very simplicity is at once their strength and weakness. While "plain and intelligible to common understandings" they are nevertheless baffling the statesman and the economist.

A point deserving notice is whether these canons are not mutually contradictory. A very productive tax may be inequitable or inconvenient. A just and convenient tax may be unproductive and so on. Hence practical financiers sacrifice equity for productiveness and convenience for certainty. It is true that in practice most practices are only a *compromise* between two or more ideal positions; but equity is the basis of all taxes. That tax system is the best which embodies all the canons in a harmonious blending.\*

### EXERCISES

1. 'Equality of sacrifice'. What do you understand by this term?
2. Examine the objections to progressive taxation.
3. Explain and criticise the principle of minimum sacrifice.
4. What are the practical applications of equity?
5. Comment on the canons of Adam Smith.
6. A bad tax from a productional point of view, may be a good tax from the distributional point of view. Explain.

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\* "Economy increases productiveness, so do certainty and convenience. Elasticity aids both productiveness and economy. There is thus a harmony in a properly administered financial system". (Bastable, P. 421).

## CHAPTER VII

### THE TAX SYSTEM

"Whoever hopes a faultless tax to see,  
Hopes what ne'er was, or is, or e'er shall be."

[M'Culloch's adaptation of Pope.]

#### 1. THE SINGLE TAX

The practical problem in taxation is the application of the fundamental principles already enunciated; that is the construction of "tax schemes" or "formulae." But no Government proceeded from first principles in its tax schemes. In this case practice is older than theory. Taxes were levied on everything that the monarch or Finance Minister thought it proper with the result that there was a multitude of taxes, most of them oppressive on the poor. It was the revolt against this excessive multiplicity of taxes that brought into the field theories of single taxes. At one time or another a *single "exclusive tax on some one class of things"* was proposed. The Physiocrats advocated the taxation of the "net produce" of the land, since they believed that it was the land on which fell ultimately the whole burden of taxation. A similar plan was submitted by a Spaniard in 1671 for an exclusive direct tax on land. Other proposals were for an exclusive tax on incomes. But the latest proposal that attracted the greatest attention of the common people, the economist and the statesman, was that of Henry George for taxing 'land values'.

The single tax is no live issue to-day; it is now outside the question of practical finance. But the impli-

cations of the proposal are interesting and reveal the essential characteristics of a good tax system: hence its discussion at this stage.

The theory of absorbing to the State the whole of the surplus or economic rent from land is very old; and Henry George's proposal in this sense was no novelty. Land is the creation of God, limited in extent, and private rights in land were therefore viewed with disfavour. The increased value of land due to 'conjuncture of circumstances' is a social creation, and the State is therefore justified in taking even the whole of it. But the real object of the single taxers is that taxation of land values will be a panacea for all ills, social and economic. "It would solve the labour problem, do away with involuntary poverty, raise wages in all occupations to the full earnings of labour, make over-production impossible until all human wants are satisfied, render labour saving inventions a blessing to all and cause such an enormous production and such an equitable distribution of wealth as would give to all comfort, leisure and participation in the advantages of an advancing civilisation."<sup>2</sup>

By what processes will this single tax usher in the millennium? Labour will be benefitted because it will be exempt from taxation. Over-production will be checked; because speculation in land will be checked; there will thus be a certain amount of steadiness in other trades and occupations. When the burden falls severely on the owner of land they will be stimulated to devise labour saving machines; since all unearned increment will be absorbed by the State, there will be a better distribution of

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2. Quoted by Seligman, Ch iii. See 2.

wealth." Now the two fundamental assumptions on which these castles in the air have been built are (1) that land is the sole factor of *all* values in a community (2) and that the land owners will bear the *whole* burden of the taxes imposed on them—assumptions, which carry on their very face their own refutations.

The proposal stands condemned as a tax scheme. In the first place it will be grossly inequitable. It is unjust to tax land values exclusively, exempting other values, such as, for example, the rapid increase of a company share. Secondly, neither the tax-payer nor the State can be certain of the tax. Thirdly, the payment might come at a time when it is most inconvenient. Fourthly, it offends against the canon of economy. Valuation of property is a costly and tedious process. It will not produce an adequate revenue; rather, there is always the danger of land values shrinking and revenue reaching a vanishing point. It thus lacks elasticity. If only land value is to be taxed the State's duty to foster some industries by discriminate protection or regulate the morals of the citizens by checking the consumption of undesirable commodities such as alcohol, will find no place in a tax system. Above all, from an administrative point of view, the tax has many defects. The valuation of agricultural land will cause the greatest annoyance to the farmer, and the burden of the taxes will be most injurious to him. "The whole fair dream of economic felicity thus resolves itself into mere mist, into mere nothingness."<sup>3</sup>

A tax system to be an ideal and perfect one should be a multiple one. Thus, we have taxes on property, on

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3. Seligman, . . .

capital and incomes; on commodities manufactured within the country or those imported into and exported out of the country; on shares, stocks and dividends; on professions and occupations; on trades and communications etc. Arthur Young pleaded for "broadening the basis of taxation so that it bears lightly on an infinite number of points, heavily on none."<sup>4</sup> But too much of multiplying the taxes recalls the famous story of the school boy who "whips his taxed top riding on a taxed horse with a taxed bridle along a taxed road. He dies at last in a bed taxed 22% after taking his last drop of medicine, taxed 7% in a spoon that has paid 15%. His virtues are handed down to posterity upon a taxed marble. And he is then gathered to his fathers to be taxed no more!" At any rate, a tax system should have a sufficiently broad basis to distribute the burdens equally, to provide adequacy and elasticity of revenue and to achieve the ulterior objects of taxation. It would be a wise plan—if it could be practised by all—"to avoid all tariffs on goods except luxuries, (and then solely for revenue purposes) and to raise further revenue mainly by graduated income-tax and death duties."<sup>5</sup> A scheme of a single tax—however much ingeniously it may be devised—is entirely out of the question of practical and theoretical finance.

## 2. CLASSIFICATION OF TAXES

What useful purpose is served by classifying the various taxes that go to make up a tax system? For classification seems to be a standing puzzle at every

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4. Quoted by Dalton. Public Finance. P. 45.

5. Lord Leverhulme. Quoted by Dalton. Ibid. P. 46

He thinks that the problem is one of "administrative convenience." A weekly income-tax on the wages of the workers collected by means of stamps, he argues, (if the popular view is accepted) will have to be regarded as indirect, and that an inheritance tax—a tax on a particular class of transactions and therefore—an indirect one. Such theoretical perfections are quite admissible but are of no practical utility. In popular usage the distinction is quite clear. As long as the burden is likely to fall predominantly on the assessee, the tax is a direct tax though the subject of taxation and the mode of payment may be indirect.

Some have argued that the distinction between direct and indirect taxes turns on as the one falls on the "persons" and the other on "things". This is on the face of it absurd; for it is always the person who pays the tax and "things" do not have purses or banking accounts to pay taxes. Others argue that the distinction is based on the fact that direct taxes are levied on property and indirect taxes on commodities. Though this distinction accords with the popular usage, it is not quite scientific since commodities and properties are not opposite concepts. Indirect taxes are sometimes described as "consumption-taxes"; this is clumsy phraseology. Direct taxes are said to be on 'possession'. Some have endeavoured to make the distinction on the basis of the method of procedure. Thus Wagner described a direct tax as one levied regularly according to some fixed fact...—of personality, of rank, of property, of earning etc. and are consequently *assessed according to some list or role*. Indirect taxes are laid accord-

ing to some changing, temporary, more or less accidental fact.....not previously ascertainable, something the result of processes, events, transactions--and are laid and collected according to tariffs". Obviously, there is a good deal of confusion in this definition.

There is one distinction made between taxes that fall on 'capital', and those that fall on 'income': the former, it is said, would have injurious effects on industry which the latter would not have. Thus Death Duties and a Capital Levy are opposed, while even steeply progressive income taxes are tolerated. The misconception in this case arises from a failure to distinguish between a tax *assessed on capital* but which could be *paid out of income* and a tax *assessed on income* that may have to be *paid out of capital*, if the rates are excessive. Thus Death Duties are paid out of current incomes by means of insuring the estates. "The precept 'tax income, not capital' sometimes elevated to the dignity of a maxim of public finance, is therefore ambiguous".<sup>7</sup>

### 3. DIRECT AND INDIRECT TAXES

How striking the revolution in practice in matters of finance has been in the last century is afforded by the discarding of indirect taxes in favour of direct taxes. For up to the 19th century it was believed that direct taxes were the badge of slavery. Curiously enough, Colbert Hobbes and Petty believed that indirect taxes would reduce the inequalities of income. However, it was not until the democratic movement gave political power into the hands of the masses, and the concentration of large fortunes in the hands of the few rich that direct taxes have become definitely established. The evolution

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7. Dalton—Public Finance, P. 37.

of the principle of faculty and the growing needs of the State have made direct taxation the most productive and the most equitable.

The earliest form of the direct tax was the poll tax, and was perfectly equitable in a society where personal and economic inequality were unknown. In the next stage there arose a "quantitative" distinction in wealth; people's wealth was reckoned in large areas of land and flocks of cattle. Hence direct taxes were now levied upon land and cattle. In modern times, we have a further element; the "qualitative" differentiation in wealth. This has given rise to the taxation not of property or capital but of income. From this historical development Seligman points out that "the history of finance shows the evolution of the principle of faculty."

Thus, though late in development, direct taxes have come to stay. They are to-day the mainstay of a nation's revenues. This, then, is its great merit. It is the changed economic conditions—large scale organisation of business and the growth of big fortunes—that have made direct taxes productive. The second merit of the direct taxes is that they are cheaper to collect and easy to administer, because much is done at the source. For this reason, there is also less possibility of evasions. Finally, direct taxes are very elastic; a slight change in the rates is all that is required to increase or decrease the yield of revenue. There are no objections to direct taxation nowadays; but the very high rates are said to be having adverse reactions on industry and employment. Certain English economists point out that the reckless spending policy of the Governments is due to the fact that only one-fourth of the population is contri-



buting three fourths of the tax revenue. Probably heavy direct taxation might lead to the discontent of the wealthy and bring about social and political revolution just as oppressive indirect taxes did in the eighteenth century.

With the development of direct taxation, indirect taxes have been relegated to the back-ground. They have not yet been disassociated from their past traditions. One writer remarks that they are "an underhand kind of taxation, identified with despotism and autoeracy" <sup>8</sup>; because they are regressive. In a democracy which recognises the ability principle of taxation, the poor ought to be exempt from all taxation. Prof. Ely points out also that they "foster monopoly and discourage the small producers" <sup>9</sup> and instances the concentration of manufactures in matches, tobacco and liquors. But by far the greatest objection to indirect taxation is the cost of collection, the difficulty of administration and the vexation it causes among all. We are familiar with the huge "customs line" erected in France for taxing salt. There are immense possibilities for evasion and smuggling in the case of imported commodities. There is another weighty objection which will be explained more fully later on—indirect taxes hamper trade and industry and might cause unnecessary or harmful diversions of capital and labour. Not without reason has it been condemned by economists as "offending all canons of justice". It is inequitable, uncertain and inelastic in

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8. Ely—Problems of To-day, P. 11.

9. Ibid—P. 10. There are *other* factors besides taxes for this monopoly.

yield, inconvenient for trade and industry and uneconomical. It takes more out of the pockets of the consumer than finds its way into the exchequer.

*Given the expenditure*, the indirect taxes are not without advantages for raising the required revenue. They have the capacity to reach the poor unawares<sup>10</sup>. Further, the poor need pay these taxes only "little by little" as they buy these commodities. They can even refuse to pay taxes by refusing to buy these taxed commodities. Secondly, the indirect taxes afford a broad basis of taxation; they form a useful complement to direct taxation. In certain respects they mitigate the inequity of the heavy taxation of the rich. The case for most of the taxes on necessaries of life would disappear, if the revenue motive disappears from the fiscal policy of the State. But the great advantages of the indirect taxes are from *other* points of view. They can be used for developing new and infant industries or affording temporary relief to depressed industries by judicious protective duties. Discriminate export duties may be used for conserving national resources. The great use made of indirect taxes to prevent the consumption of injurious articles such as tobacco and liquor is too well-known. There is a large class of non-necessary expenditure for personal enjoyment which does not conduce to efficiency. In the interests of social economy it is highly necessary that the State should come forward to regulate consumption both by legislation and by taxation.

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10. "They know how to coax pennies out of poor people whose names have never been on the tax-collector's books. Few of us taste the tariff in our sugar, and I suppose that even very thoughtful toppers do not perceive the license tax in their whisky"—Wilson quoted by Daniels, P. 102.

## 4. DOUBLE TAXATION

Academic studies are apt to disregard or ignore completely the administrative aspect of the tax system. Almost every tax has its administrative difficulty and by far the greatest of such difficulties that have attracted much attention in recent times is the question of double taxation.

Double taxation means "the taxation of the same person or the same thing twice over", by the same authority or by competing authorities. Thus, an individual may be taxed separately both on his income derived in the aggregate and on a particular item such as dividends distributed by a company. If England would tax a Britisher on incomes received from Australia and Australia taxes the same person for the incomes arising within her territory, there is the case of double taxation by competing authorities. The difficulties of taxation of the profits of shipping or manufacturing concerns whose profits arise in several countries are really great in modern times. Hence in the interests of equity and of the facility of international trade, double taxation is to be avoided as far as possible.

If our taxation is on the basis of 'residence' or 'domicile,' four methods suggest themselves for solving the problem. The first is the method of exemption for incomes of non-residents going abroad. This method accepts the principle of domicile. The second is the method of deduction. If the tax on the same object has been paid in one country, the tax-payer is allowed to deduct the tax already paid from the total taxes he has to pay in his own country. This reciprocal arrangement is seen in the case of Great Britain and her

careful accounts in duplicate on prescribed forms for every visitor, to plaster these with stamps, to make periodical returns and to submit these books to frequent and prolonged examination by inspectors."<sup>13</sup> Certainly vexatious!

From the fiscal point of view the tax system must be capable of producing sufficient revenue. It should also be elastic. Revenue should as far as possible be raised from a small number of productive taxes rather than from a large number of unproductive ones.

From the administrative point of view the cost of collection should be small. Taxes should cause no room for evasion, fraud or smuggling. Efficiency in collection is one of the essentials of a good tax system.

A tax system should be democratic, amenable to popular control and scrutiny. A tax system imposed by the executive on an unwilling or ignorant mass savours of tyranny and despotism.

Finally, a good tax system must be the necessary part of a good expenditure scheme and a good public debts system. It is impossible to conceive of a good tax system apart from the other parts of public finance.

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13. Dalton—Public Finance, P. 157.

## CHAPTER VII

### DIRECT TAXES

"Nearly all taxation in practice is a compromise between two or more ideal positions."—Stamp.

#### 1. THE LAND TAX

Having studied the tax system as a whole we shall now pass on to a detailed consideration of the individual taxes. The land tax may be taken up first, since it was the earliest (probably next to poll tax) and the most universal form of direct taxation.

Land is subject to three different kinds of taxation which should be kept separate. (1) Taxation for the Central or the Provincial Government along with or separately as a General Property Tax; (2) taxation for Central or Provincial Government on the basis of "public values"; and (3) taxation exclusively for the Local Government. The first two will be considered in this section.

The chief features of modern taxes on agricultural land are the following. (1) A flat rate on capital value. (U. S. A.) (2) A flat rate on annual value. (Australia). (3) A flat rate on net produce. (France and India). (4) A progressive tax on incomes in addition to the flat rates. (Italy and France). (5) Land is subject to estate and succession duties. The general tendency in modern land legislation is to have the flat rate very low (in France 10% of annual value) but to impose heavy death duties and heavy local taxes. As a consequence, it has been said that incomes from land bear a heavier burden than

incomes derived solely from trade or business. Prof. Seligman thinks that this is in accord with the changed economic conditions of the present day. "A tax on a real estate is a real tax, a tax on product: it is not a personal tax...the real estate tax is an especially good local tax partly because the benefits of local expenditure accrue primarily to real estate and thus increase the faculty of the owner" <sup>1</sup>.

Theoretically speaking, taxation of agricultural land by the central or provincial Government is open to many objection and difficulties. In the first place, land is not a suitable subject; it cannot measure accurately a man's ability to pay. It may be mortgaged or it may not be yielding a return. Neither capital value nor annual value are perfect basis. Secondly, the burden falls mostly on the owner and as such it may check productivity. Thirdly, administration is very difficult. If taxation is on the basis of capital value, it requires an expensive and wasteful machinery. Annual value is equally unsatisfactory, and in the case of peasant proprietors, merely empirical values can be set down. 'Net produce' is a better basis but cannot be estimated except by expensive and costly cadastral surveys. Again, long periods have to be fixed in order to avoid constant irritation and settlements. Fourthly, the tax is neither economical nor productive. It is not even elastic. There is not a strong case for progression, unless agricultural incomes are clubbed together with incomes from other sources. The poorer cultivator cannot be given sufficient exemption.

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1. Seligman, quoted by the Taxation Enquiry Committee. It may however be pointed out that what Seligman says is relevant to general property (real estate) and not to agricultural land in particular.

All things considered, it seems best to tax land according to the following principles adopted in New Zealand, which has been held out as the model for land taxes: (1) Limitation of agricultural estates. (2) The exemption of the small land owners and also improvements. (3) "The withholding of the exemption limit from companies, absentees and large landowners, (4) the extra taxation of absentees and companies."<sup>2</sup> (5) A graduated tax on incomes from land, including mortgages.

The second kind of land taxation is on its "unimproved" or "public value", which cannot be traced to work or effort by the individual. This is considered to be an eminent subject for taxation, since the State is justified in absorbing to its treasury those elements of profits that are of a social creation and since the yield will be large and the administration easy it will not have any adverse effect on productivity or the supply of land. It may be pointed out that cases of unearned increment values of this kind arise in urban land sites owing to many causes and do not generally apply to agricultural land.

There are however two difficulties; it is always difficult to isolate the public value from private value and to levy the tax only upon the first. Secondly, it will be a discrimination against investment in land, while such sudden jumps in stocks and shares may go scot free. Yet, in this case, the Governments have sacrificed equity to productivity. There are many forms of increment value duties. In Germany all increments of land value (above the exemption limit of 10 %) should

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2. Shirras—Public Finance. P. 214.

10% and over 10% rising by one per cent for each 20% increase in increment, until 20% was payable where the increment was 200%.<sup>3</sup> "The English scheme introduced in 1909 was to absorb 20 per cent of the increases beyond 10 per cent in the value of land accruing after April 30th, 1909, and was payable on each occasion on which property changed hands either by sale or death."<sup>4</sup> It was however abandoned in 1920 when it proved to be unproductive. We may add that the failure of the tax was due in a large measure to the heavy local taxation of land in England.

## 2. THE INCOME-TAX

The income tax is the greatest engine of revenue in all modern Governments though it is only of a recent origin. It is however a system of taxes rather than a unitary tax: it extends to incomes from business, professions and investments, whether arising within the country of the resident citizen or without. It extends not only to persons but to corporations or companies.

**Basis of Assessment:** The basis of assessment for income-tax purposes is the *gross money income* and for administrative difficulties we exempt all psychic and non-monetary incomes. No one is taxed for the pleasure derived from his own library or the house he owns and so on.

In the case of businesses the average of three years is the basis and in certain trades the profits of the previous year. In all other cases it is the annual money income.

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3. Stamp—Principles of Taxation, p. 62.

4. Robinson.—Public Finance, p. 66.



**Exemptions:** The tax being one on incomes (= a flow, not a stock of wealth), no allowance should ordinarily be made for depreciation of capital: but allowance is made for wastage of capital and the replacement of obsolete machinery. In the case of houses and tenements, similar allowances are made for repairs subject to a maximum. Remissions are granted if the houses are unoccupied. In cases of double taxation rebates are given.

**Abatements:** Though all incomes are taxable, only incomes above a certain limit are actually taxed for two reasons. We have to allow a certain reasonable standard of living on a conventional basis, and further, if all incomes are assessed, costs of collection would be great. When once this exemption limit has been fixed, it should not be varied except after long intervals. Abatements are given in the shape of (1) A personal allowance. In Great Britain a bachelor gets £135 and a married man £225. And if the wife also earns she gets an additional £45. (2) Deductions for children: the first child gets £36 and every additional child £27. Dependants are also given an allowance.

**Differentiations:** *Prima facie*, a case can be made out for differentiating incomes arising from profession, trade, business, etc. (= work or earned incomes) and those arising from stocks, dividends, etc., (investment or property incomes). The former is liable to fluctuations on account of illness or losses, and provision has also to be made for old age and children. Investment incomes stand on a different footing and can therefore be taxed at a higher rate. In Great Britain an abatement of 10% subject to a maximum of £200 is given on earned incomes. Secondly, differentiation

should be made between the "uses" of income—between saving and spending. Unless new savings are exempted, accumulation of capital will be checked; further, they will be taxed again when they yield returns. Probably since the elasticity of incomes is great, it will give a stimulus for savings. But looking at the problem more closely, the arguments are overwhelmingly against differentiation. (1) It will be a substantial bounty to the rich, because they have greater elasticity. (2) It will lead to fraudulent practices such as saving in one year and spending it away in the next or investment in unproductive ways. (3) It will increase administrative complexities since it is not always easy to decide what constitutes savings. A suggested remedy is the taxation of expenditure through commodities; but obviously a blind ally. Hence the only practicable differentiation—insurance premium—is made. For political purposes certain war bonds and Government bonds have been explicitly exempted from taxation. In America all municipal investments are exempted.

**Progression:** The rate of assessment of income-tax on a progressive basis is based upon the faculty principle. In Great Britain the first £250 of the taxable income (after exemptions and abatements) is taxed at half the standard rate and the rest at the full standard rate of 5 shillings. A super-tax rising from 1 s. 6d. to 6s. is imposed on incomes over and above £2,000. Thus the highest incomes pay a rate of 11s. on incomes above £30,000\*. In the U. S. A. surtaxes range up to 50% and

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\* 5. See Mellon—Taxation: The Peoples' Business, Ch. III and Seligman, Studies in Public Finance.

this had led to investments in tax-free securities. <sup>5</sup> There a further source of complication has also arisen owing to the State income-taxes in addition to the Federal ones. In France all incomes exceeding 550,000 francs are absorbed into the treasury.

### 3. TAXATION OF COMPANIES

In England companies are liable to ordinary income tax only and are not separately taxed as in the U.S.A.\* The special taxation of companies has been advocated for following reasons. (1) They enjoy special privileges such as Limited Liability and juristic personalty. (2) They are closely associated with monopolies and huge profits and as such in the interests of regulation and on the basis of ability they can be made to pay. In America all corporations—private and public such as banks, railways, mines, electric and gas and water supply companies—are assessed. The basis of assessment is different in the different corporations. Some are assessed on the basis of their gross earnings, others on their net receipts, capital stock, or capital value. The best basis will of course be income, if it would be convenient in all cases. The tax is a source of State revenue, while much may be said for making it federal.

Many objections are raised against the special taxation of companies. It may be a discrimination against the organisation of big business, a fine on the policy holders for their thrift and foresight, and would introduce many administrative complexities such as

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<sup>5</sup> The Finance Act of 1930 (Mr. Snowden's Budget proposals).

\* A Corporation Profits Tax Act was passed in 1920 and repealed in 1924 to further the development of trade. The lesson is instructive for India.

double taxation. *Where* the case is established in a particular country for a special tax on companies, all these objections vanish. Double taxation can be avoided by exempting the dividends of the share-holders.

**Excess Profits taxes.** Another variety of onerous taxes exclusively levied upon companies is the excess profits tax. It is a tax levied on profits in excess of normal profits, usually ascertained by the dividends on capital. In England the standard rate or the normal profit was assumed to be the "average profit of any two of the last three years before the outbreak of war." Obviously, this method of reckoning is empirical and arbitrary and would not fit all cases. The rate varied from 50 to 80 per cent. The result was an enormous increase of prices (by the operation of shifting) and a stimulus to extravagance of management so as to show a lower profit. Here is a case of a tax having adverse effects on production, a direct curtailment of all inducements to efficient management. As a temporary war measure, the tax was extraordinarily productive. It was discontinued in 1921. With proper safeguards, and better administrative machinery, the tax may be re-introduced in cases of emergencies and boom conditions.

#### 4. DEATH DUTIES

That the State should tax a dead man's property looks not a little amazing but needy financiers have found enough arguments for their policy. While introducing the tax in England Sir Harcourt Butler declared: "The State has the first title upon the estate and those who take afterwards have a subsequent and subordinate title" <sup>6</sup>. Even Mill had favoured the tax on the ground

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6. Quoted by Pigou. Public Finance, P. 157.

that it would cause no hardships: "Hardship depends on disappointment; disappointment on expectation; and if the law of succession leaves him nothing, he will expect nothing." Some have considered it as a fee! Andrew Carneige defended it on the ground that the "state is a partner in any enterprise where money is made honourably." The Socialists demand it for redressing inequalities of wealth.

The economist who looks at this problem dispassionately takes a different view (admitting the principle of private property and the existing laws of inheritance to be inviolable). Inherited property is in the nature of a windfall, a fortuitous income, having a special ability to pay. Neither would it disturb production nor the desire to save since it can be insured against. It is to be regarded as an "occasional property tax" and in some respects is superior to annual lump sum levies or income-taxes.\* For people desire to die as rich as possible. The effect of the diminution of wealth at death might even help them to save more during their life time. But income-taxes affect the willingness and the capacity of the people to work and save and the psychological effect of sending annual tributes to the state is not a less important factor. But it may be pointed out that if some people visualise the future less clearly and are less farsighted and less rational, it is clear that the tax will have to be paid out of the sale of property at death. But this possibility is remote in a highly developed industrial community and where the tax has existed for a *long time*.

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\* The whole field is to be explored from the psychological point of view, since the motives for saving and accumulation are beyond the realm of the economist.

But the common objection to death duties is that it is a tax on capital and that its incidence will be on capital. The mistake arises from a confusion of terms—between a tax assessed “on capital” and a tax paid “out of income”; between the “standard” and the “source” of taxation or between the “object of assessment” and the “source of payment”. Further, the proceeds of the tax are not thrown into the sea to be described as “capital is gone”. The capital remains. After all, *all* taxes affect the formation of capital. The effect of the death duties is confined to a particular class whose capacity to accumulation is very great in spite of the taxes. Very often it is transitory. The most conclusive proof that capital is unaffected is that ‘big fortunes still flourish; nay, they grow faster’. According to the estimate of the Board of Inland Revenue of Great Britain, two-thirds of the wealth of the country are held by just under 400,000 people while the top one-third is held by 36,000 people <sup>7</sup> and that distribution of wealth by taxation has not been disturbed to any appreciable extent. But for these taxes, individual fortunes would have reached dangerous proportions.

The English Death Duties consist of two taxes. The Estate Duty is levied on all estates valued over £ 100 passing at death and is graduated from 1 to 40% ad valorem. The Legacy and the Succession Duty is levied on the beneficiaries according to their degree of relationship to the deceased, ranging from 1% to 10% irrespective of the value of the estate. In U. S. A. the tax on beneficiaries varies with the value of the estate as well.

Prof. Rignano, the Italian economist has put forward an interesting scheme of death duties. It is progres-

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7. Sir Josiah Stamp. Wealth and Taxable Capacity, P. 102.

ative *in time* and has no reference to the degree of relationship of the beneficiary or the value of the estate. His scheme would mean that  $\frac{1}{4}$  of A's fortune should be taken away at death; 50% when B, his heir, dies, and 75% when C, the heir of B dies and the whole of the remainder at the death of D, the heir of C. Similarly B's fortune due to his own exertions will be treated. "The older the fortune the heavier the tax." It has the great merit of not checking the desire to accumulate, while at the same time it discriminates against inherited wealth; but the dangers of evasion and the complexities of administration prevent the actual adoption of the plan, and also many other variants of the existing scheme.

## EXERCISES

1. What are the principles of land taxation?
  2. Enumerate the difficulties of a general property tax.
  3. Illustrate the principle of equity from the English income-tax.
  4. Examine the inheritance tax from the three points of view: equity, economy and convenience.
  5. Consider the justification of Death Duties as 'deferred income-tax'.
  6. What are the relative advantages of a high income-tax and a death duty?
  7. "Most taxes in practice represent the best practical compromise between the three stand points" (of the individual, the state and the community.) Stamp. Explain.
  8. Corporation Profits Tax, Excess Profits Duty and Land Increment Value Duties are considered taxation of surplus. Do you agree?
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## DIRECT TAXATION IN INDIA

### 1. LAND TAX.

The first thought which strikes a student of finance in a predominantly agricultural country like India is its land revenue, till very recently the mainstay of finance and even now the sole source of direct taxation for the provinces. It however presents many peculiarities and is a very complicated problem owing to differences in the systems of assessment. It is the result of historical accidents and of a slow process of evolution and was worked out *pari passu* with the piecemeal conquest of the country.

The East India Company adopted several methods for the collection of land revenue since its acquisition of the Diwani of Bengal. The many failures of the auction or farming systems, and of direct settlements with the cultivators induced Lord Cornwallis to introduce the Permanent Revenue Settlement in Bengal, Bihar and Orissa. The Madras Government under Munro adopted the Ryotwari Settlement directly with the cultivators. In Bombay farming the revenues to Mamlatdars was first adopted. The Mamlatdar let his district at an enhanced rate to under-farmers who repeated the operation till it reached the patels. When the administration passed into the hands of the British, the farming system was abolished and Elphinstone introduced the Ryotwari Settlement. In the North-west Provinces and Punjab there were many petty zamindars and rajahs who have founded



particular villages and claimed the whole village area. Hence the Mahal settlement was adopted, liable to periodical revision. The same phenomenon was present in the C.P., where the government had to make a similar settlement with the patels or Malguzars. In Burma there was no land tax prior to the British occupation except a tax on the cultivator varying according to the number of ploughs used. In 1879 the government decided that the assessment should be a portion of the net produce similar to the practice in Madras.

**Permanent Settlement.** The principles of the P.S. are the following: (1) The revenue demand is fixed forever and is unalterable. (2) The government have the right to levy cesses which are of universal application. (3) At the time of the settlement it was ten-elevenths of the rental paid by the tenants to the zamindars and the remaining one-eleventh was retained by the zamindar for the trouble and responsibility. Now it is only 25% of the rental which the zamindars pay to the government. Nearly ten crores are pocketed by them. (4) All the unearned increment and the profits of improvement go to the landlords. (5) The tenants are protected against the oppression of the land-lords by the Rent Act of 1859 which confers proprietary rights on a tenant who has occupied a land for twelve years and provides again for the enhancement of his rate not more than once in 15 years subject to a maximum of two annas in the rupee.

It is contended that the P.S. was concluded without undertaking a complete and accurate survey of the lands, of the produce, of the state of cultivation and the interest of the cultivators. The landlords proved themselves to be the prototypes of the Irish landlords, rack-renting and oppressing the tenants and living as useless

drones on the soil. The conditions were changed since 1859 and the Bengal peasantry is not a resourceful and prosperous class.

**Village Settlements.** About 33% of the lands are under this system mostly in the Punjab and the U.P. The village through its head-man undertakes to pay to the government the revenue demand fixed periodically, and the villagers assign to the individual cultivators their respective quotas. Primarily each cultivates and pays for himself but ultimately he is responsible for his fellows also. In the event of the sale of his land the co-cultivators have a right of pre-emption.

The assessment is fixed at 50% of the rents paid by a normal responsible tenant in that locality. In determining the rent rate the settlement officer takes into consideration factors such as means of communication, increase of population, the number and circumstances of the proprietors and the different conditions of cultivation. It approximated to the half net assets maxim of Madras.

**The Ryotwari Settlement.** About 47% is under R.S., chiefly in Bombay, Madras, Sindh, Burma, Assam and C.P. Every registered holder is recognised as a proprietor and pays direct to the government. He is at liberty to sell or transfer his property subject to the payment of the revenue. In unfavourable seasons remissions are granted. Charge for water is extra. The assessment is revised periodically once in ten years in backward and undeveloped areas and once in thirty years in old Provinces.

The assessment on each particular holding is fixed after an elaborate cadastral survey. The soils are classified and the plots grouped in the order of tarams.

A separate grain value is attached to each taram after a thorough examination of the actual yield in each typical taram, allowances being made for variations and difference in situations, water-supply, proximity to market, etc. The grain value is then converted into money value based on the average of the 20 non-famine years for the whole district. Net produce is determined by deducting cost of cultivation which includes interest on capital investments, wages, costs of manure, and the expenses of carting, and fifty percent of this net produce is fixed as the tax. In all cases deductions are not made for improvements.

In Bombay the assessment is somewhat different, being based upon general considerations. It involves three distinct operations. The taluks are first grouped according to "marked and permanent distinctions" such as climate, situation and the general conditions of cultivation. The net process is the determination of the total demand for that taluk on consideration of its previous revenue and economic conditions. The final operation is the distribution of aggregate over the individual survey numbers. It is an empirical method not based on accurate working out of the details.

In the Central Provinces the settlement officer fixes the assessment by a complicated system of soil classification. In British Baluchistan the government collects one-sixth of the gross produce and a similar additional sixth if the land is irrigated from a government source.

#### CRITICISM OF THE PRESENT SYSTEM

The most striking feature of the Indian land revenue is that the principles of the settlement and the determi-

nation of the rates of assessment and the enhancement are not uniform throughout the country. In some parts the basis is net assets, in others gross produce while in the rest it is rentals. As such the incidence is indefinite. There is uncertainty regarding the rates also. Secondly, they are not embodied in law; everything is let to the vagaries of the executive. Thirdly, unlike in most European countries the land is not subject to estates duty and agricultural income-tax. Land tax is therefore degressive and falls unduly upon the small cultivators whose uneconomic holdings hardly leave them any margin. The worst about the present system is that very little of the money taken from the land is spent on the landholding classes. All these defects are brought home very clearly when we apply the canons of taxation.

1. **Certainty.** In the permanently settled areas and in the temporarily settled areas during the currency of that settlement the cultivator knows precisely what he has to pay in the shape of taxes on land. Beyond this there is no certainty on account of the fluctuating assessment in the Punjab and the variable charges that are added to land revenue in Madras.

2. **Convenience.** Since the government collects the revenue in instalments there is some convenience but the government demand represents a sum that may be paid out of the produce in a normal season; but very often the cultivator suffers losses and no net produce is left over. The assessment is paid by borrowing or by stinting of the necessaries of life. Convenience is sacrificed to certainty. Another source of inconvenience arises when an enhancement is made at re-settlement

which suddenly alters his family budget and standard of living unless provision is made for the enhancement by degrees and it is spread over a number of years. A third source of inconvenience is the swarm of officers who flood the village and cause a considerable dislocation of its business by their meticulous enquiry which is followed by endless appeals against their assessments involving heavy expenses.

**3. Economy.** The cost of the cadastral survey is very great since ours is the most difficult in the world, owing to fragmentations. The average increase in the years' revenue, it has been pointed out, barely covers the cost of the establishment. The cost of collection is certainly enormous owing to the necessity of a large staff from the village headman to the members of the Board of Revenue. Much economy can be effected if fluctuating assessments are given up, the water rate rules are simplified and the holdings are made economic. But it must be admitted that the revenue staff performs functions other than the collection such as keeping of records and therefore, the whole of the expenditure cannot be credited to their account. The high cost of settlement must be set off against the protection afforded by the maintenance of records.

**4. Ability.** The land revenue imposed on all landholders is degressive and, therefore, offends the canon of ability. The Taxation Committee argue that the land revenue is a tax on things and not on persons and quote Dr. Gregory. We may quote Dr. Dalton in reply who remarks "inanimate objects such as plots of land and imported goods are not endowed with pockets or banking

accounts out of which they, as distinct from persons, can pay taxes. It is a platitude that all taxes are paid by persons, not by things". On the other hand land is a convenient object of assessment but that assessment ought to be in proportion to ability. The Committee tried to determine the burden of taxation on which alone, according to their view, the canon of ability is to be applied.

The demand of the government has been progressively lowered in the past 50 years, since the passing of the Sharanpur rules which fixed the assessment at 50% of the net assets. The actual assessment do not bear any relation to this theoretical standard for reasons such as the exemption of improvements, the conditions of particular localities, the idiosyncracies of the settlement officers and limit of  $18\frac{3}{4}$  per cent over enhancement. The Committee points out that while prices have risen by 117% in the past two decades, land revenue has risen by only 20% and a portion even of this rise must be attributed to the increase by 7% in the area of cultivation. According to the Committee this is the best method of calculating the burden. The other proposed methods such as ascertaining the tax per head of the population, per acreage sown, per soil unit, the gross or net produce or the annual value of each plot, are dismissed as unsatisfactory. Competitive annual value will be the most reliable, if accurate figures are available. If the existing figures could be relied upon the land revenue ranges from 10 to 50% of the annual value of land. Certainly the burden of the land tax is great although it is gradually on the decline.

**Conclusion.** The essentials of any new scheme of land taxation for the temporary settled areas (the zamindari settlement is out of practical politics), seems

to be first, that the basis and the pitch of assessment must be definite; second, that it should be as simple and cheap as possible; third, that it should ease the burden on the small cultivators and fourth, it should contain an element of progression in the case of the larger owners. Legislation on these lines, is long overdue.

#### THE PROPOSALS OF THE TAXATION COMMITTEE.

After dismissing some of the schemes such as the redemption of the revenue by the ryot or the buying over of the zamindars, a substitution of an export tax and the imposition of a tax on this rental value of land, the Committee make the following proposals about making radical changes in the present system.

**Assessment.** The recent tendency in all land legislation has been to make the annual value the basis of assessment. Annual value can be ascertained by record of leases and sales as is done in Bombay. The future land revenue must be 25% of this annual value, which may be defined as gross produce less cost of production including the value of labour expended by the farmer and his family and the return for enterprise—in other words, the competitive rent. But in the Punjab and the C.P. the customary rent may be reckoned as the annual value because rent is controlled more by tenancy laws and custom than by competitor. The Committee suggests an expert enquiry in each province to determine the annual value of lands. As regards the term of settlement, considerable economies can be made if when prices rise, a small percentage increase is adopted on the existing valuations instead of going through the whole process of re-valuation.

**The Poorer Cultivators.** The entire exemption of the small holder from land revenue would not benefit him. Apart from the administrative and financial difficulties involved in the proposal, fragmentation would get a further stimulus and it is likely that these holdings may be sold away at the capitalized value of the remission of the revenue. In the end the position of the poorer cultivator would be worse while their chances of alternative employment would be diminished. If the loss of revenue is to be made up from industry, industry will be retarded. The real problem of the peasant is not excessive assessment but it is his illiteracy, want of enterprise, uneconomic social customs, the laws of inheritance, the paucity of alternative employment and above all a backward system of rural economy. Hence land is to be taxed for local purposes and the proceeds spent mostly on services such as education, public health etc. Mr. Shah pleads for the total exemption of the poor ryot for which a good deal may be said in favour.

**The Large Holders.** It has been pointed out that the absence of progression even in a limited form and the exemption of agricultural incomes together with the absence of the estate duties has made the Indian Land Revenue degressive. Progression has been given up as an unsound policy for land revenue in most European countries. But the case for an agricultural income-tax and death duties is stronger, and the Committee's conclusion is that it is administratively feasible and practically worth while.

In conclusion it must be admitted that the present system is defective in all respects and needs a thorough overhauling by any future national government of India.



## 2. THE INCOME TAX.

The first Income Tax Act was introduced in 1860 by Wilson but was given up five years later and a new Act was passed in 1865 for the imposition of a flat rate of five pies in the rupee. In 1916 progression was introduced and the present system is based on the Act of 1922. The law is modern, the machinery is centralised and many administrative improvements have been made. At present the greatest need is more for the improvement of the administration than for any change in the principles.

**The Basis of Assessment.** In most European countries the gross income is not the basis of assessment because a certain sum is deducted if it is work-income besides giving abatements for children and dependents. It is this taxable income which is the basis of assessment. But in India no abatements are granted, no differentiation is made and the whole of a man's gross income above the exemption limit of Rs 2000 is the basis of assessment. While it is urged that abatements and differentiation are necessary, it is also pointed out that the exemption limit is too high. The problem needs a detailed analysis.

**Exemption:—**The present limit of Rs. 2000 should be looked at not merely from the view of the relation to the cost of living. For, obviously, it is certainly high; but the fact remains, says Mr. Shah, that the rich do not bear a proportionate burden of taxation as compared with the agricultural classes. But it is to be admitted that the recent tariff changes have made the burden on the middle class a little heavy and the absence of abatements in face of early marriages and the large

dependants is an additional reason against the lowering of the exemption limit. A third reason urged by the Committee is that the largest number of assessees, nearly 70%, is in the lowest class of incomes while their total contribution is less than 10%. Therefore it will be very little gain if the trouble and the expenses involved in the assessment and collection is taken account of. Historically we have found it necessary to raise the limit from Rs. 500 to Rs. 1000 and then to its present level of Rs. 2000. There is no clear case for the lowering of the limit.

**Abatements:**—If abatements are granted, administrative difficulties are bound to crop up in abundance. In England the registers of births and deaths and marriages are accurately kept, while in India they are not universal and much less reliable. It will be difficult to prevent frauds. Again, marriages are practically universal and no large class of bachelors will be contributing as in England. Under these circumstances the claim for abatements is very small.

**Differentiation:**—The application of the conception of property incomes and work incomes to Indian conditions at the present time is less warranted than it sounds in theory. There is no large class of retired persons depending on investments as borne out by income-tax figures. Receipts under this head amount only to 5%. In fact, one class of investment incomes is exempted, namely, agricultural incomes. Since land pays heavy tax already, it would be unfair to bring it once again under a general scheme of income tax. Hence the present basis of assessment with the exemption limit at Rs. 2000 without abatements and differentiations is recommended to be maintained.

**Graduation of Progression:**—One of the defects in the present system is that the tax almost equals and in a few cases exceeds the difference on incomes just in excess of the incomes in the lower limit. A mere addition of a few Rupees to Rs. 2000 makes a man pay a heavy income-tax of about Rs. 50. Thus a tax payer with a lower income is much better off than one with a higher income. Some relief is given to such case in section 17 of the Act of 1922, but it is inadequate. The Committee, however do not propose to make further changes because they are not administratively feasible.

**Tax on Companies:**—The super-tax now levied at one anna on incomes over Rs. 50000 and ranging to six annas over 5½ lakhs, imposes heavy burdens on the companies in particular. But the Committee argues that the term super-tax is a misnomer and should be dropped in favour of the term 'the corporation profits tax.' The advantages enjoyed by companies regarding limited liability and transference of shares together with the fact that such a tax will be amortised are sufficient reasons for taxing companies. Mr. Shah remarks that this interpretation is "a thin end of the wedge for the introduction into India of the American Trust Tax which may not at all benefit the economic recovery and the growth of this country." In the light of this criticism the recommendation of the Committee to fix a lower limit for taxing companies must be regarded as unsatisfactory and harmful. In the case of frauds and evasions practised by companies the Committee propose rigorous methods of control to prevent them.

**Double Taxation:**—In India there are many cases of double taxation owing to the peculiar political and

economic relationships of India with Great Britain. The British have many business connections in India and the relations between the Government of India and the Native States are also sources of cases of double taxation. Arrangements are made between Great Britain and the Native States for refunds and release but in the following cases the settlements are found to be unsatisfactory. They are :

1. Incomes of residents arising abroad.
2. Incomes of non-residents.
3. Pensions and leave-salaries.
4. Interest on sterling debt.

According to the present Act, incomes arising abroad but not received in India are exempt from assessment while in England such incomes also are taxed. Moreover, in India, profits of business even if received in India within a period of not more than three years are exempt from taxation. Thus large classes of British businessmen resident in India are let off but the Committee think that the loss under this source is not very great and do not propose to make changes owing to administrative difficulties. For similar reasons the Committee do not propose to tax leave-salaries and pensions drawn from Indian revenues by retired officials residing in India. Interest on sterling debt is to be exempted for the reason that it was not specifically stipulated at the time of contract that interest will also be taxed. The numerous buying and selling agents are also exempted, besides the profits of the shipping concerns. Prof. Shah contends that this is a serious defect and estimates that this source may yield about 5 crores of rupees. This is

a just source of taxation which could relieve the Indian tax-payer a good deal.

**Agricultural Income-tax:**—On grounds of equity there is no case for exempting agricultural incomes. The existence of a land revenue, however high, is no reason why income from land should not be taxed while investments in industry or securities are taxed. The poorer cultivators would certainly be exempted and only those who pay a land tax of rupees 500 and more are likely to be assessed under this head according to the present scheme of Rs. 2000 limit, for general income tax. The number of such assesseees is estimated to be not more than 4000 in Madras and the Punjab. So no peculiar hardship is imposed on the agricultural class. The argument applies with added force in permanently settled areas. It is estimated that 75% of the rentals are absorbed by the Bengal land-lords, their tenure-holders and sub-tenure holders, amounting to about 10 crores of rupees. Mr. Shah estimates that if the principle of ryotwari settlement be extended to the land-lords in Bengal, Oudh, Behar and Orissa, nearly 9 crores of rupees can be obtained for the Public Treasury.\*

Historically too, there is case for the imposition of taxes on agricultural incomes. In 1860 these incomes were assessed for income tax but were replaced by a license tax in the shape of a cess in 1865. Since that levy has been given up agricultural income ought to be brought under the sway of the regular income tax scheme.

It is the yield which is difficult to calculate and makes the Committee diffident. Madras is estimated to give 4 lakhs and the Punjab only 6 lakhs. In Bengal

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\* Mr. Layton estimates the yield at 5 crores.

it is likely to be insignificant since the sub-tenure holders and the co-zamindars who share with the zamindars have individual incomes of not more than "a few rupees a year." If this estimate of the Committee is correct, Mr. Shah's estimate which puts the yield at Rs. 9 crores for Bengal and 12 crores for the whole of India, must be an exaggeration.

Lastly, administrative difficulties are many and varied. There is much less need to point out the great apprehensions that the tax would raise among the rural population and the opposition of the zamindars.

### 3. PROBATE AND DEATH DUTIES

Duties on inheritance are a source of large revenue in most countries and their introduction into India has been many times considered, but shelved owing to the opposition it will raise from the landholding classes. The case for such taxes at the present is stronger than before owing to the diminution of land revenue gradually and the increase of revenue contributed by other classes. Administrative difficulties such as the valuation of chattels, of investments and the tracing of the heirs in a joint family, are not after all insuperable. A mere estate duty on the lines of the English system is easily practicable. Since the Europeans, Eurasians, the Armenians and the Jews are paying it in the form of probate duties, its extension is desirable to all communities both on grounds of equity and in the interest of law reform.

At present there are three classes of duties levied—probate duties for the official recognition of the will of a person dying intestate; duties for the grant of Letters of Administration in the case of a person dying

intestate and duties on succession certificates required for several purposes. All those duties having a bearing on inheritances are collected by the courts in the shape of court fees. They are not equitable in two ways. Only a certain class, of people such as Europeans, is required by the law to pay these duties. Secondly, the large and small estates are treated alike by a duty of 2% on the value without exempting the smallest estate or security.

The advantages of extending the principle to all communities is manifest. Legal frauds in respect of adoption, partition and reversion would be curtailed by the universal adoption of "representation." Where property is to be sold or bought, by the recognition of a duly appointed legal representative, sellers and buyers would be safe-guarded and the value of property also will be enhanced. The Civil Justice Committee has recommended the principle compulsorily in the case of wills for all classes.

In order to facilitate the administration the Committee proposes to exempt estates yielding annually below Rs. 5000, lest it should impose a burden on a multitude of poor and ignorant people. The duties are also to be graduated, making adequate allowances for encumbrances on the property. To achieve uniformity legislation is recommended to be centralised in the Government of India while the proceeds would go to the provinces. The large yield from this source is likely to confer immeasurable benefit for nation-building departments.

retention of the tax for revenue purposes is an obstacle to total prohibition. Certainly this is a powerful and practical argument, but the way to total prohibition is very difficult at least in many countries. Unfortunately there does not seem to be much progress, for with every increase in duty, consumption increases and revenues swell!

**Revenue Excises:** If the purpose of excise is solely revenue, the following principles should be adopted. (1) The commodities excised should be manufactured on a large scale in a few centres so as to make administration easy and cheap. (2) The commodities should be few and of wide consumption. For this reason mostly necessaries and conventional necessaries are excised. Matches and sugar are the outstanding example: If the same are monopolised by the State, substitutes should also be taxed. Taxation of luxury commodities is attractive but very unproductive. (3) No *national industry* (whose products are not necessaries), should be taxed. The cotton excise duty of India (repealed in 1927, is the worst excise ever introduced. So also, no raw materials of manufacture should be taxed. For in both cases the prices of the manufactured goods would rise *more than* in proportion to the tax. The demand is elastic. The manufacturer loses interest on the tax paid. The effect of it all will be cumulative. (4) If the excised article carries a protective duty, the duty on imports of such commodities and their substitute should be taxed at a higher rate to compensate for the inconvenience of the excise duty on home manufactures. (e.g. If match is excised at 1-8-0 per gross, foreign matches should be taxed, say, at Rs. 2.) (5) An exception to rule 3 is that a moderate excise duty can be levied on



home manufactures intended *mainly* for export, other things being equal. The manufacturer can shift a part or the whole of the tax to the buyer or increase the price in the home market. Such cases are rare. The usual method in such cases is to levy export duties and not excise duties.

## 2. IMPORT DUTIES.

**Customs**—so called because they were “customary payments” from time immemorial—were earlier in origin than excises. Needy monarchs at times levied “special customs” as well. The mercantilist age saw customs at their zenith. But with the era of free trade most of these were swept away, but still some states have erected tariffs either for the purpose of revenue or for protection. It is convenient to study customs under import and export duties, treating the revenue and protective aspects separately in each case.

**Revenue Duties** :—Unfortunately the revenue raised comes from the citizens and not the foreigner, except in very rare cases. The duties must not only be low\* but should also be levied on necessaries or commodities of wide consumption. Thus in Great Britain 90% is collected from four articles, tobacco, sugar, tea and spirits. As a rule raw materials should be exempt for “dear yarn is bad for weavers; dear corn bad for milling; dear iron bad for steam navigation and a host of other industries”. Luxuries will not produce much revenue, unless the demand is persistent (motor cars in India).

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\* Theoretically there can be no such thing as “a tariff for revenue only”; for any duty (with certain exceptions) will increase the price, diminish imports. The phrase means that the duties are so arranged to yield revenue with the *least* possible reactions.

**Protective Duties:**—There are many justifiable cases of protection. (a) In the case of infant industries (b) for safeguarding against competitive foreign industries (c) for political reasons: (Defense is better than opulence) (d) Dumping is to be prevented by protection. (e) To give temporary relief to depressed industries. (f) As a retaliatory measure. But in other cases protection is undesirable. Hence the advocacy of a policy of 'Discriminate protection.\*' A general tariff with an all-round protection is decidedly an evil. As Sidgwick said long ago, "The gain protection might bring in particular cases is always likely to be more than counterbalanced by the general bad effects". Protective duties are easy to impose but hard to remove. General theorisation even in this respect is vitiated by certain other factors as will be shown in the case of Indian import duties.

The following general principles may be laid down with regard to protective duties: (1) They should be *effective*; that is to say protection must be adequate to give decisive advantages to the home manufacturer. (2) When the foreigner dumps his goods in the protected country either by unfair price cutting, or as a result of home-fed bounties, or because he has to keep going his expensive plant, the protective duties should be very high so as to deprive the foreigner of all advantages. These are called anti-dumping duties. (3) As far as possible protective duties on foreign imports should

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\* For the sake of Industrial development, the Indian Fiscal Commission have laid down the following four conditions for protection: (1) that the industry possesses natural advantages. (2) that it cannot be developed without protection. (3) that it will eventually face world competition. (4) that key industries should be protected.

always be accompanied by bounties to the home manufacturer.

**Protection and Revenue:**—When we restrict foreign imports with a view to encourage home-manufactures, it is obvious that we cannot raise revenue as well. Adam Smith expressed this platitude as follows: "Taxes proposed with a view to prevent importation are destructive of revenue." A high revenue tariff which amounts to protection may still bring revenue to the treasury, if the home manufacture is absent or ineffective in competing with the imports or not adequate to meet all the demands of the consumers. A protective tariff will also bring revenue, if the manufactures of the home country are adequately excised.

### 3. EXPORT DUTIES.

In earlier times, when communications were imperfect most countries could enjoy a monopoly for their products. Export duties were therefore very popular, since they would yield large revenues. But at the present time the situation is different. World competition is intense; if Russia imposes duties on her exported wheat Great Britain will go in for the American or Indian wheat. Further, science has advanced to such an extent that a threatened stinting of supplies by export duties is likely to be overcome by inventions of substitutes. The German synthetic dyes is a good example. Hence export duties are unpopular now, because their incidence is on the taxing country. They are also unproductive because of the resort to substitutes. Still there are certain specific cases, where export duties can succeed.

**Revenue Export Duties:** As Mr. Culbertson\* points out, backward countries but with agricultural monopolies of raw materials can derive large revenues from these duties. They are easy to collect, and may be justified as a substitute for land or income tax. But foreign demand and foreign supplies should be closely watched and the rates manipulated accordingly. One of the ways of assisting the industry that contributes these taxes would be to spend the proceeds on those industries. Similarly other things being equal a country can tax its foreign manufactured exports, if the elasticity of demand for them is little.

**Restrictive Export Duties.** Under certain conditions, export duties may be levied for checking the export of desirable raw materials for home use: (bone meals, oil cakes etc. in India; wood pulp in Canada etc). The result may be beneficial if the foreigner is obliged to buy the finished or semi-finished products. If on the other hand, the taxes will have the effect of diminishing production, prevent improvements in quality, and cause lower rents for agricultural land, the restrictive element disappears. Such duties are regressive. There is a case for discrimination in export duties as well as in import duties. Restrictive export duties should at least have the effect of making the foreigner establish industries in the taxing country. Sometimes preferential export duties are levied for the purpose of diverting trade to the mother country; a rebate was given in the case of export of hides from India to Great Britain and the Dominions.

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\* International Economic Policies. (P. 315).

**Export Bounties.** As a rule bounty for export is as bad as buying off an enemy. It benefits the few at the cost of many; favours particular interests and monopolies and finally would prove ineffective if the importing country imposes 'anti-dumping duties'. Dr. Pierson describes it as a "gift to the foreigner".

#### 4. THE FORM OF A TARIFF.

A tariff is a schedule of rates of customs duties. Probably there is no other problem so difficult as the making and administration of a tariff in practical finance. Economists distinguish between four kinds of tariffs: (1) The Single Tariff which is meant merely for revenue. (2) The conventional tariff is one which is still for revenue, but with provisions of preferential tariffs in favour of some one, or more countries. The first is not in existence, but examples of the second are to be found almost in any country—Canada, Australia, etc. (3) The Maximum and Minimum tariff is one which contains "a number of rates fixed by treaty with foreign countries...determined from the outset by the Legislature"<sup>1</sup>. The manipulation of the rates according to the requirements of industry and trade within the maximum and the minimum limits set by the legislatures is the work of the executive. (4) The last is the Multiple Tariff, a mixture of revenue, preferential and protective features. The best example is the Indian tariff.

As regards the *rates* as distinct from the form of a tariff, there are three methods. (1) The *ad valorem* is a proportional rate expressed as a percentage of the value of the commodities. (2) The specific rate is a fixed duty

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1. Higgins. Tariffs at Work. P. 16.

on a prescribed unit of number, volume, weight or measure. (3) The compound duty, otherwise known also as conventional rate or Tariff valuations is a combination of *ad valorem* and specific.

Theoretically, an *ad valorem* duty has many advantages. (1) It is more equitable, because highly priced articles pay a heavier duty and consequently the poor bear a lesser burden. (2) Revenue will increase with the increase in prices; but there is also the disadvantage of a fall in the revenue when general prices fall. But it is extraordinarily difficult to administer. The valuation is done usually on the basis of the invoices of imported goods or the actual market value of the goods at the time of exportation supplemented by the importers declaration as to the accuracy of the figures. But several frauds are committed. Agents or clerks give false declarations or produce forged documents. The expert officials of the Customs Department of course assess the value but it is extraordinarily difficult to do so in several cases. In New York the appraisers number 500. "The appraiser's store is the centre of the whole system of *ad valorem* duties."<sup>3</sup> The only other safeguard is the right to pre-empt.

Specific duties are simple to administer. But it is the coarser goods which are bulkier or weigh more that pay heavier duties, and hence the incidences are unequal. Secondly, it requires a more elaborate and detailed classification of all the imports into certain well-defined schedules. But we can do away with the costly appraising machinery and the fall in prices will not affect revenue.

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3. Higgins. Tariffs at Work.

Tariff valuation is probably the best compromise. "It is equivalent to a system of specific duties adjusted from time to time to meet changes in prices, the basis being a uniform *ad valorem* rate"<sup>4</sup>. Further it is less complex to administer, and also less costly. The importer also knows the amount of duty exactly and can adjust his prices accordingly. In the case of a multiple tariff with a large number of revenue dutied commodities or with protective duties it is more efficient and economical to have specific duties and tariff valuations.

#### EXERCISES.

- (1) Illustrate the general principles of excise revenue from the Indian excise system.
- (2) Discuss the case for reimposing cotton excise duties.
- (3) Point out any new sources of excise revenue for the Provincial governments.
- (4) Discuss the salt monopoly of the government of India.
- (5) By what practical measures can you introduce prohibition in your province?
- (6) Determine the incidences of Indian import and export duties.
- (7) What changes do you propose in the present customs tariff?
- (8) How far do you agree with the policy of "discriminate protection" for the industrialisation of India?
- (9) Discuss the pros and cons of imperial preference.

## REVENUE EXCISE DUTIES IN INDIA

Excise duties are ordinarily levied on local production, either for revenue or for checking the consumption of undesirable articles. If levied for revenue they should be confined to industries which are concentrated in large factories or whose production is limited in a small area, so as to make its administration easy. Such taxes should not also be heavy lest the poor are burdened. If the industry requires protection it may carry an excise duty for revenue purposes if the import duty on the competing foreign articles is sufficiently high. These three are the general principles of an excise tariff. Salt and petroleum are the two excised commodities now.

### 1. SALT

**Sources.** There are three sources of supply:—the North Indian source, the Maritime source of Bombay, Sind and Madras and the foreign imports. The relative percentages are twenty, fifty and thirty respectively. In north India the production of salt is in the Salt Range, the Kohat and the Khewara mines, in the Punjab and Rajputana lake. The government controls the whole manufacture of this source and the working has been satisfactory. The department has a reputation for cheapness and efficiency. In Madras and Bombay the system is very complicated. Foreign salt is consumed very largely in Bengal, Behar, Assam, and Burma. The foreign salt has a fine white grain and is cheap. A large consumption of imported salt is to be regarded with some apprehension since dependence on it results in a



danger of supplies such as occurred during the war. The Madras manufacturers are to be encouraged in order to provide employment for the agriculturists during the hot-season. Government pioneering, giving free licenses and leases, concession in transport, etc, would help the industry a great deal.

### **The Rates.**

- 1878. Rates were standardised at Rs. 2-8-0 per maund,
- 1903. Reduced to Rs. 2., owing to Gokhale's agitation.
- 1907. Lord Curzon reduced it to Re 1-0-0.
- 1918. Raised to Rs. 1-4-0
- 1923. Raised to Rs. 2-8-0, to balance the budget.
- 1925. Reduced to Rs. 1-4-0, the present rate.

**Criticism of the Salt Tax.** The salt tax is a legacy from the past inherited from the Native rulers. The Duke of Argyle regarded it as a "legitimate and important source of public Revenue" since that alone would make the masses pay taxes. Theoretically, there is nothing objectionable to the salt tax. The abolition of the transit duty and the gradual cheapening of the commodity from about Rs. 5/ to Rs. 2/., offer an effective set off to the imposition of an excise duty. It is also very productive and unless a suitable alternative is provided there is no case for its abolition.

But the objections are too well known. Falling on an absolute necessary of life for millions of people whose average incomes are as low as three annas a day, the restricted consumption cannot but have undesirable effects on the health and the physique of the people. Sir John Strachy said, "hundred million people and cattle

failed to obtain a full supply of salt." In 1882 Major Baring calculated that where salt was cheap consumption per head was greater twelve pounds in Madras as against six in U. P. where salt was dear. In 1921 Madras had an average consumption of 18 pounds while the Punjab and the U. P., had only ten pounds.

The Taxation Committee, quoting Dr. Ratton, explains this difference to the difference in the dietary of the North Indians. The effects of variation in the rates of duty, they also point out, have not been very considerable.

Salt is also required for various agricultural and industrial purposes. Unless it is issued duty free for these purposes some burden is thrown upon industries. To meet this objection the Committee propose the extension of giving salt duty-free for textile industries and agriculture in all provinces.

The claim of the salt tax cannot be decided merely upon considerations of equity or its revenue. Salt revenue is about  $2\frac{1}{2}\%$  of the total revenues of India. With the burden of recent unproductive debts and the necessity of increased expenditure on several items it is not advisable to reduce the rates from its present level. Another weighty reason urged by the Committee is that of Sir Josiah Stamp, who observes "I should ask if the tax is abolished or altered, in what probable respect well-being would be improved? If inconsiderable, I should continue the burden." The case of the salt tax is similar and the present duty of Rs. 1-4-0., imposes a burden of three annas per head per annum, which is perhaps no great hardship even for the poorest. On the other hand, as Dr. Paranjpye points out, an appreciable

reduction, say, to eight annas, would benefit the masses of people by increasing the consumption without decreasing the revenue. An additional reason for its reduction is that it is a legitimate and convenient source for increased taxation in times of emergency. The normal rate should therefore, be kept very low.

## 2. NEW PROPOSALS OF THE COMMITTEE.

New excise duties are suggested for three reasons:— for restricting consumption, for preventing a loss of customs revenue and for the purpose of creating new sources of revenue. It is only the last that will be examined here. Of the many articles suggested for excise such as, candles, tea and coffee, aerated waters, coal, patent medicines, betel and tobacco, the Committee propose taxing only three commodities. Tea and coffee are already paying excise. Coal is a raw material which cannot at present bear the tax. Bottle is an old proposal but administrative difficulties are too many. Therefore aerated water, patent medicines, and tobacco are proposed to be taxed.

**Aerated Waters.** Excise duties on aerated waters are levied in England and other European countries and recently in Japan. The mode of levying it is through a stamp pasted over the mouth of the bottle. A simple plan in India would be by a tax on cylinders of carbonic acid gas issued for this purpose. It would largely fall on the rich and the middle class people and it is not objectionable. It may yield also a large revenue.

**Patent medicines.** They are convenient sources of revenue, partly for reasons of regulation and partly because they are consumed by the rich. They are taxed in almost all countries by means of a stamp fee. Its

imposition in India is, therefore, desirable. It would not seriously interfere with the practice of the Vaidis and Hakims since only advertised medicines would fall within the scope of the tax. The tax then should be accompanied by a corresponding import duty on foreign medicines to the extent of fifty per cent. A tax of four annas in the rupee is proposed as excise on Indian patent medicines.

**Tobacco.** India is the only country which does not tax tobacco, and all previous attempts to tax it were abandoned owing to administrative difficulties. Recent developments have, however, been favourable for a policy of excising for revenue purposes. As a conventional luxury, it can bear a fair rate of taxation. Many large-scale factories are now manufacturing cigars, cigarettes and smoking tobacco, on European lines. There are also organised small factories employing hand labour. It is only where beedies and cheaper varieties are made as cottage industry, that the manufacture is unorganised. The reason for this great development is the existence of a high import duty of nearly one hundred per cent on foreign cigarettes. This is an additional reason, therefore, for levying excise duties in order to maintain the high yield of the import revenue.

Government monopoly of tobacco would be too vast an undertaking. The levying of an acreage fee on cultivation will also be difficult. A system of licensing for vendors should be adopted in local areas. It is easy to tax tobacco manufactured in factories. The yield is likely to be very great even at a moderate duty. In the city of Bombay alone through a town-duty of as.  $7\frac{1}{2}$  a maund, nearly five lakhs are obtained. In Patiala the tax works at the rate of two annas per head, in French

India at six annas while in Travancore it is as high as eight annas. If British India adopts a regular excise and license system of even one anna per head of the population it would give a revenue of 154 laks.

#### RESTRICTIVE EXCISE.

**Excise policy.** "Although the Indian peoples are among the sober in the world and the system of excise under which they live is one of the most restrictive in existence, the revenue from excise on liquors and drugs has for more than half a century contributed from six to thirteen per cent of the total taxed revenue of the country." In these words of the Committee, we have a stupendous problem at once tempting the temperance reformer and baffling the finance minister. The policy of the Government of India for the same reason, has been one of drift and experiment. In the early days, financial necessity made them increase the number of shops, locating them at high places and encouraging consumption by all men! Owing to many agitations reforms were introduced abolishing the "Outstill system" and placing higher duties. The policy of the government was laid down in a resolution of 1905 which aims at minimising temptations, discouraging excess and subordinating the revenue motive. Many attempts have been made to reduce the number of shops, of hours of sale and to enforce severe penalties on illicit traffic and consumption. As a result the revenue is steadily growing! The government attribute this to the desire of the people to imitate the westerners and to the improvement in the economic condition of the masses and to the growth of an industrial and town-labouring classes. The improved methods of administration are also responsible for

the increased revenue. The critics of the government view it with alarm and take it as an evidence of the increased intemperance with all its attendant evils. But the government till the reforms of 1920 regarded prohibition "outside their duty."

Since the provincialisation of the excise greater agitation for prohibition is carried on by means of deputation, boycott of liquor shops, resolutions in the Councils etc. The Bombay Council has resolved to attain complete prohibition in 20 years. Bengal has prohibited the sale of drinks to young children. Excise Advisory Committees have been appointed in Madras besides prohibition of the Todas and the Badagas. The practice of local option has also been introduced.

The crux of the whole problem remains unsolved. In most provinces excise is a major source of income, contributing nearly 25% of the revenues. In some provinces it is as high as 40%. It is impossible to think of prohibition from the point of view of financial autonomy for the provinces with the ever-increasing necessity of expenditures on nation-building departments. The costs of the preventive staff which would be like a standing army would be about 2 to 5 crores in each province. The problem of making arrangements with the Indian states is another great difficulty. Prohibition cannot be realised when there are numerous ways of home manufacture and numerous substitutes such as cocaine. The suggestion of Mr. Shah to completely monopolise intoxicants of every kind and thereby raise the price rapidly, progressively and consistently, seems too good to be practicable. His other suggestion to make the excise revenue the only source of provincial contribution by which he claims that it will be killing two birds with

one stone, has the merit of novelty but has come rather too late! Further, it is to be admitted that the present rates have over-stepped the limits of the consumers' patience and the readiness to obey the law. We do not see the prospect of prohibition until general education and Local Self-government have advanced sufficiently high to grapple with the evil completely and provide alternative sources of revenue.

**Administration and Rates.** The most important of the drinks is the country spirit—a plain spirit distilled from sugar or Mahwa. The other is foreign liquor such as whisky, brandy, gin and rum. The third variety is the "country fermented liquors" such as toddy, rice beer. In the case of the first and the last, a system of contractor supply or managed supply is in force. The contractor uses the government distillery and supplies a pure spirit at fixed strengths to which the government adds the duty at so much per gallon. In the case of toddy there is a tree tax and the shops are sold by public auction. In the case of foreign imported liquors there is the customs duty and its proceeds are credited to the central revenue. Locally manufactured foreign liquors pay excise and vend fees which are credited to the provincial revenue. This double system of customs being credited to the central government and the excise to the provincial government has resulted in the imposition of divers rates in different provinces. The Committee proposes to raise the duties on home manufactured liquors to the level of the customs and credit the proceeds either to the central government or to the provincial government.

Of drugs which are excised, Ganja is the commonest kind; charas the strongest; opium is the juice of the

such as confectionery, glass bangles, beads, gold thread, gold wire and leaf, silver plates, silks and woollens, fireworks, jewellery, clocks, watches, and musical instruments, smoker's requisites etc. pay an ad valorem duty of 30%. Motor cars, motor cycles and bicycles pay 20%. Belting 20%; yarn 5%; printers ink 5%. All other commodities not specifically excepted or taxed otherwise pay a general tax of 15%.

**Protective Duties.**—As a result of the adoption of the recommendations of the Tariff Board, iron and steel have been given protection. Coal tub, tipping wagons and the like designed for use on light rail tracks made mainly of iron or steel (of British manufacture) pay Rs. 21 per ton or 17% ad valorem whichever is higher. If not of British manufacture, they pay Rs. 21+15 per ton. Similarly for iron manufactures of certain kinds. Till 1930, cotton goods were paying only 11% ad valorem but now it has been raised to 15% with preferential duties against Japanese manufactures.

**Export Duties.**—The export tariff is mainly on jute and rice. Raw jute cuttings pay a specific duty of Rs. 1-4-0 per bale of 400 lbs; others pay Rs. 4-8-0. Manufactured jute (bags, twist yarns) pays at the rate of Rs. 20 per ton of 2240 lbs. Other manufactures of jute pay Rs. 32. In addition to these heavy duties a cess is levied and its proceeds are devoted for the encouragement of jute. Hides and skins pay 5% ad valorem. Rice pays at the rate of 3 annas per maund. A cess of 6 annas per lbs. of tea, of 4 annas per bale of 400 lbs. and of 4 annas per maund of lac are also collected and the funds



are devoted for the purposes of assisting the industries either by research or advertisement.

## 2. THE EFFECTS OF THE HIGH REVENUE TARIFF

Several important problems have arisen as a result of the high tariff. Revenue has increased enormously because India largely depends upon foreign manufactures and must pay for them even though the tariff is high. Secondly, many industries have risen behind the tariff wall and are enjoying an indirect protection. Although this is welcome, it is to be regarded with some apprehension if they are likely to offer opposition to the lowering of the tariff on purely revenue consideration. Thirdly, many administrative difficulties in appraising and the checking of smuggling have arisen. The effects on trade are not easy to determine in the face of the unsettled conditions of the international market, but it cannot be overlooked that the import trade has declined to some extent. It is difficult to see whether export also has diminished to that extent. And last but not least, there has been the shifting of the incidences of taxation. All these effects can be illustrated from the following cases.

Revenue has steadily increased in the total and that shows that there has been no appreciable reduction in the volume of imports although individual items may have declined. What inference can be drawn from this state of our trade? (The bulk of the imports are manufactured goods which contribute 60% of our customs revenue).

Many industries have arisen and are enjoying protection behind the tariff. In certain cases it is good to encourage the growth of industries, especially when

there are natural advantages by means of a high revenue tariff. Such an example is sugar. Mr. Shah suggested in 1921 that 80 crores of rupees borrowed at 5% and utilised for developing this industry would benefit the country and the exchequer. He suggested a doubling of the tax to cover the interest charges on eighty crores while the income tax on sugar manufacturers would bring in additional revenue. Sugar now pays 25% duty and enjoys substantial protection at home. Recently there has been a suggestion to raise the duty still higher and to develop this national industry by substantial bounties. Another example of an industry requiring encouragement by means of a high tariff is tobacco. Manufacture of cigarettes has been developed largely owing to the 100% duty on imports, and the absence of excise. The growth of new industries is always welcomed except by vested interests. A serious case of the growth of vested interests is the Swedish Match Corporation, and very recently the General Motors Corporation. Effective steps must be taken to prevent the exploitation of Indian market by such foreign concerns behind a high revenue tariff system. The Taxation Committee argue that protected Indian interests may offer opposition to the lowering of the rate for revenue purposes. Unless excise duties are also levied on Indian manufactures revenue will decline and the consumers are obliged to pay high prices. On the whole we venture to think that at the present state of economic and political conditions no evils will result owing to this artificial protection to Indian industries. What we seriously apprehend is the growth of "foreign vested interests".

The Taxation Committee point out that in the case of certain imports the effect of the high tariff has been

to bring diminishing revenues but this is only with regard to luxuries. The imports of gold and silver thread have fallen greatly while encouragement has thus been given to the import of imitation goods and the growth of home-manufactures. Much the same tendency is noticed in the import of ivory and electro-plate wares. Whether the decline in the consumption of these luxuries is due to the rates, the trade slump or other causes, is a question which we cannot positively decide merely from diminished imports. A curious illustration is that of the much criticised 30% duty on motor cars. The duty has justified itself as a producer of revenues; it is because India is a country where motor transport is just developing enormously. The Committee thinks that the tax on liquors would bear an increase, since its consumption shows an increase in spite of duties.

Lastly, we come to the consideration of incidences. How far the foreigner pays the duties depends on the following conditions. 1. If the goods are produced with the aid of a large fixed plant for a limited market which would be lost if the price is raised, the foreigner will bear a part of the tax. Two good cases are the Lancashire piece-goods and the English motor cars. In the latter case the severe American competition is an additional factor. 2. If the foreigner has a large supply to be disposed of at any cost and sell them at nominal prices in the taxing country he bears part of the tax. Most of our cheap foreign goods are cases in point. 3. If similar commodities are manufactured at home and the foreigner also has to compete in the taxing country he will be obliged to bear part of the taxes. Soaps, candles, and cigarettes are illustrations. 4. If the foreigner is intent

upon destroying or stifling an industry which is likely to compete with his, he willingly bears part of the tax as in the case of steel. The taxing country can counteract this effect by adopting a policy of giving bounties to home manufactures. 5. The speculator regularly pays the tax when the commodities are massed in warehouses on the border for importation on a rise of prices and on being imported in large masses depresses the price—for instance hides and skins in war time. In the case of machinery, watches, railway stock and government stores it is India which has borne the tax because we have no alternative supplies.

The Taxation Committee has discussed the question of the shifting of the burden of taxation from one class to another. The revenue from articles of general consumption by the population as a whole has increased by 300% since 1913, while the increase in the case of articles of luxuries has been only 250% in spite of a very heavy taxation of such commodities. These figures indicate that there has been a certain amount of shifting of burden from the richer to the general population. This is confirmed by the fact that matches, sugar and oil are the largest items of customs. It is the lower ranks of professional and the poor town population that have borne the burden. This analysis proves conclusively that it is almost impossible to tax the rich by means of indirect taxes. Raw materials of industry have shown an increase of 90% and this is due largely to increased imports. Hence we cannot say that the industries have suffered. The tariff policy and the rates need considerable revision in the light of these conclusions.

### 3. PROTECTIVE TARIFF

Sir John Stratchey observed in 1878 that "India by the extent and favourable conditions of her territory is capable of producing almost every article required for the use of man." What is lacking is not so much capital as was a decade ago but skilled labour, industrial education, organisation and leadership. The Fiscal Commission has laid down that the tariff should be made use of for fostering industries. Protection has its own attendant evils such as increased prices, unprofitable retaliations resulting in the wastage of world's resources, mis-direction of labour and capital, the growth of vested interests and the opposition between the producers and the consumers within the country. But scientific protection as a temporary experience is a modern policy. The Fiscal Commission has, therefore, advocated a policy of "discriminate protection". It involves some sacrifice by bearing the increased taxation. But as soon as the industry is placed on a sound footing, the duties are removed.

The Fiscal Commission has laid down the following principles to be observed in the grant of protection to Indian industries. 1. That the industry possesses natural advantages. 2. That temporary protection is necessary to start that industry. 3. That it will eventually face world competition without protection. 4. That such industries are essential for purposes of national defence and prosperity.

The Tariff Board has recommended and the government has given protection to the iron and steel industry of India by raising the general rate of duty on imports to 20% and by giving bounties. Import has steadily declined.

British steel has been given preference recently. Paper, cement and matches have been given protection. The claims of cotton, oil, coal, ship-building and salt have been rejected. Film and chemical industries are now under consideration. Tanning and leather industries and vegetable oils may be protected. Mr. Shah thinks that an export duty of 10% on cotton and jute would result in an enormous development of these two industries. The forest industries need development and protection by import duties on timber, wood, rubber, gums and resins.

#### 4. IMPERIAL PREFERENCE.

The policy of a sympathetic and cooperative manipulation of the tariff to make the empire a self-sufficient economic unit and bring the trade rivals of England to heel was adumbrated by Joseph Chamberlain in 1903. Ever since the question is being debated and the war has given an added impetus to it.

The Indian government made the first attempts at preference in 1919 by giving rebate of 10% to imports of hides and skins and dye-stuff from the Empire. British steel was given preferential treatment in 1927 but a claim for similar treatment to British films has been rejected.

It is to be noted that preference is advocated so that England may obtain our raw produce cheaper than other countries could get from us and to supply us with their manufactures at the concession rates. This is exactly what India does not want. A large proportion of our export consists of raw materials and even if we do not develop our own manufactures we should like to sell them at advantageous terms in the world market. By

giving rebates to the British buyers we stand to lose nearly 60% of our export trade. Our imports are from Britain and even if we wish to make up the loss of revenue owing to preference by levying high export duties on foreign buyers we stand to lose. Scientific discoveries may result in the loss of our export market. The other Dominions where Indians are not given equal treatment are not likely to receive preferential treatment from India. The Fiscal Commission favours preferential treatment under the following conditions :

The preference must be voluntary and may be given in the case of electrical goods, motor cars and machinery which we do not propose to make now. 2. It must be approved by the legislature. 3. It should not diminish the protection which Indian industries now enjoy. It should not cause loss of revenue to the treasury. 5. The question must be investigated by the Tariff Board. 6. Regarding Dominions, the treatment must be reciprocal.

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## CHAPTER X

### SHIFTING AND INCIDENCES

#### 1. INTRODUCTORY

"The problem of the shifting of taxes is primarily a question of price; hence a part of the wider theory of value."—Seligman.

Incidence is usually regarded as a hard nut to crack; but the difficulty arises mostly on account of confusing many issues that should be kept separate.

Shifting means simply the 'throwing off' the tax and incidence the final point of rest. Hence incidence is said to be a problem of 'who pays the tax ultimately.' It is important to remember that we are concerned with only the money burden of the tax, and not the ulterior 'effects' that the tax produces. If the producer shifts the tax to the consumer the process is said to be 'forward'; and if the consumers shift it to the producer it is said to be 'backwards'. Not infrequently is it shared between the two. If others intervene, such as labour, the producers of raw-materials or other manufactures, to share the tax there is said to be 'diffusion'.

In a broad sense shifting is a means of escape from taxation. It is however not illegitimate nor does it diminish the revenue to the state. What happens is that A instead of paying the tax himself makes B or C or a score of others pay the tax. Obviously, if A is a producer and is taxed, he shall have to sell the commodity at a higher price; B the consumer will not purchase the commodity at the new price if his demand is elastic; the incidence then will be on A. On the other hand, if



B's demand is inelastic he is perforce obliged to purchase the commodity at the new price and the incidence is on him. Thus as a broad and general rule, other things being equal, inelastic supply means the producer bears the burden, and inelastic demand means the consumer bears the burden. The same can be stated in other words: other things being equal, if prices rise and demand remains at least the same, the incidence falls on the consumer and vice versa. This is the connection between incidence and price.

This is simple enough; but in most cases in life simplicity is unattainable. Price is not influenced merely by the tax; there are a score of other influences such as the price of raw-materials, wages, inventions and so on. Similarly demand is subject to various influences. Prices will vary if production is under conditions of increasing returns, monopoly or government regulation and protection. Besides there are certain 'extra-economic' factors such as law, custom and sentiment. It is the reactions of all these factors that make the problem of 'incidences' a difficult study.

## 2. TAXES ON LAND

Who pays the land tax? The obvious answer is, the landowner. The peculiar characteristic of land is that in nine out of ten cases the incidence falls on the owner. The supply of land is fixed and inelastic; the farmer is ignorant and bears the burden by reducing his expenditure or incurring debts to pay the tax, and finally agriculture is an occupation which does

not lend itself to free competition. Hence taxes on land tend to stick where they fall. <sup>1</sup>.

**Tenancy and Incidence.** Will the land tax be shifted in case the land is leased out? In the feudal age or in any custom-ridden community, it was considered that the tax should be borne by the assessee. For custom fixes what the tenant or sub-tenant should pay. Dr. Nicholson quotes from Stubbs an interesting observation. "Even a tax on movables cannot live without roots; it must attach itself to the land."<sup>2</sup> But it is difficult to be so dogmatic in an age of contract and competition. There are cases even in our country, where the tenant undertakes to pay the land tax and enters into a definite contract to that effect: this is a common practice when a creditor obtains a mortgage with possession. Sometimes the water tax is paid by the tenant and the land tax proper by the owner. It must be emphasised that the influence of contract is all important and that of free competition, is negligible or very limited.

**Sale and Incidence.** The purchaser of a land takes into consideration the tax he has to pay before offering a price for the land. What is the effect of the tax on the sale? Supposing a land B of a similar quality as A pays a smaller amount of tax, A will fetch only a price that can be measured by the difference between

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1. All economists are unanimous in adjudging the incidence of the land tax to fall entirely on the owner. But their reasoning is not always the same. The Physiocrats argued this way. Agriculture is the source of *all* wealth, it alone shows a net return or a surplus above the cost of production. Since land alone yields a surplus and constitutes the sole fund of wealth, the incidence of *all* taxes is on land. Hence their advocacy of the '*impôt unique*' on '*produit net*'. All taxation *direct* and *indirect* will fall ultimately on land!

2. Principles of Political Economy, Vol. iii, P. 302.

the total taxes the respective lands would pay. In other words, the purchaser offers a price minus the "capitalised value" of the tax. Who pays the tax now?—obviously the seller. Adam Smith was dogmatic when he said that it is the seller who always bears the tax. It may be pointed out that people do not always enter into minute calculations of this sort; but nevertheless 'capitalisation' is a fact. In times of rising prices, when land values soar up, the purchaser usually offers a price, irrespective of the capitalised value of the taxes. Then the buyer obtains a surplus gain.\* Thus when a tax on a property is capitalised, its value falls, if the burden is borne by the seller. Its value rises, if the purchaser bears the burden. If all taxes on land were remitted, the benefit would go either to the purchaser or the seller according to the ratios of elasticity of demand and supply.

**Rent and Incidence.** The classical economists were unanimous in saying that a tax on 'economic rent' would fall on the proprietors; for rent is determined by the differential advantages over the marginal land. The supply of land being fixed and the margin unalterable, the rents cannot be raised to cover the tax. Thus if Rs. 500 were the economic rent and the tax 5% on it, the proprietors will now receive only Rs. 475; if the tax is remitted they get their full rent.

Perfectly sound in theory, the argument fails to accord with the facts of actual life. Nowhere do the

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\* Prof. Seligman. "If a tax is capitalised, it cannot be shifted; if it is shifted, it cannot be capitalised." Shifting and capitalisation are opposite concepts; but both processes take place only through transactions,

landlords exact the *full* economic rent. In Ireland it was more, and in England it is much less. Neither is it possible to *devise* a tax scheme which will absorb *only* the economic rent. Even if such a tax were introduced the result will be indifferent. The Irish landlord might have thrown this burden also on the tenant! Some of the present day English landlords might look more sharply at their rentals and charge the tenants a little more; Some lenient landlords may not care at all. Secondly, pure rent is only a 'magnificent abstraction'; it can never be separated from rent arising out of improvements, the commercial rent. Hence a tax that falls on 'economic rent' is likely to affect the landlord who has invested a large amount of capital for improvements or the tenant whose industry has given a larger return from the land, or both. Further there are the influences of custom, law or contract.

### 3. URBAN LAND AND HOUSE TAXES.

Taxes on non-agricultural urban land present certain distinct peculiarities owing to the fact that competition and free contract have a predominant influence there. Urban land is put to several 'uses' and the competition between 'uses' is also an important factor. In the case of 'houses' there is a certain amount of elasticity of supply, which is absent in agricultural land at any given time. The influence of these factors on incidence makes the study somewhat intricate but nevertheless interesting. It may be added that in certain respects—*e. g.*, capitalisation, the problems are identical.

**House Tax.** A percentage rate on the capital or annual value of inhabited houses is a common feature of

local taxation in all countries. In either case it is difficult to separate that part of the tax that falls on the 'building site' from that on the 'building' and assess the incidence separately. For the sake of convenience it is safer to ascertain the incidence of the tax that falls on the gross rent or gross capital value.

In urban houses, it is usually the occupier who is liable to bear the tax on houses. Supposing the municipal tax were to be raised from 10% to 15% the tenant will be obliged to pay it. If the tax is raised *suddenly* say to 20% it is not improbable that the owner and the occupier would have to share it between themselves. Any addition to the tax imposed during the currency of an agreement, unless the parties change it, will fall on the owner. If there is a *sudden* demand for more houses the competition will be so keen that there will be a general increase of rents in the locality with the consequent burden on the occupier. For it will take *some time* before supply can adjust itself to the increased demand. There will be many variations to the above conclusions in several parts of a town where conditions of habitation will be different. And further the fixing of rents depends upon the bargaining strength of the parties and their mutual relations. In the case of a house let to a shop-keeper the incidence in most cases is on the occupier, who, if his business is a thriving one and frequented by fashionable people, can pass it on to the consumers.

**Building site tax.** What will be the incidence of a tax on eligible building sites? The owner will bear it and pay it till probably he could sell it away. If the demand is slack, the seller would forego the taxes he has paid; but if there is a keen competition among

buyers, the whole of the taxes can be shifted. In the first case there has been capitalisation and discounting to that extent. In the second case there has been a shifting of the taxes paid so far. Shifting or discounting does not take place with mathematical accuracy in actual life, but the tendency is clearly in the directions indicated.

**Increment value duty.** A tax on unearned increment is very common in all urban areas. Even in India where a particular piece of land has risen in value definitely traceable to local improvements, a tax ranging to 50% of the increment is levied. (The Bombay Town Planning Act of 1915. The Madras Town Planning Act of 1920 and the Rangoon Development Trust Act of 1920). The characteristic of this tax is that it is an occasional tax as opposed to an annual tax. It is intended to affect the owners who have received a distinct measurable benefit: it is a differential tax. The *sale* value of the property is diminished to the extent of the tax. If the property is sold at its capitalised value,\* the incidence is clearly on the seller. Otherwise it will be on the purchaser.

#### 4. COMMODITY TAXES

It is in the sphere of commodity taxes that many complicated problems arise. There is shifting forwards and backwards and sometimes a general diffusion. A

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\*The following conditions must be present for capitalisation:  
(1) The taxed commodity should be a durable property *i.e.*, land, company shares etc. It must also be income-yielding. (2) The tax must be a differential tax. A tax on oil shares will depress the selling value of oil shares; if oil shares alone are exempted, the owners enjoy an extra benefit as compared with the other share.  
(3) Capitalisation takes place only at the time of a sale.

tax on necessities will be shifted by the producers to the consumers. Consumers of luxury can shift backwards the tax at least for *some time*. A tax on jam manufacture may be shifted by the producers to the makers of tin cases or labels and so on. A tax on petroleum will be shifted to the bus owners and from them to the passengers.

The general principle has already been enunciated.\* A tax generally raises the price of the commodity. If demand is persistent at this price, the consumers bear the burden; because demand is inelastic. If demand falls as prices rise and the producers find it impossible to divert or curtail their supply but are obliged to lower the price bearing the tax, the incidence is on them. Supply is inelastic. The tax will be divided between the consumer and the producer according to the ratios of their relative intensity of demand and supply respectively. In plain language, the producers tend to shift the tax to the consumer by curtailing supply, and the consumers by reducing their demand, the proportion being determined by the bargaining strength of the parties. This principle applies to cases where complete mobility and perfect competition rule. But in actual life such conditions are rare. Both production and consumption are subject to many other factors.

**Demand.** Demand is dependent upon the marginal utility of money which is different with different people at a given time and different with the same person at different times. There is also the influence of changes of fashion and of custom. Combination among purcha-

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\*Vide Sect. 1 Para 3.

sers is unthinkable but a national or a class boycott occurs frequently. The general principle will have to be modified according to the reactions of these influences. As a rule, demand for necessities and high priced luxuries is inelastic. A tax on a complementary commodity for which substitutes are not readily available will fall on the consumer. Demand is elastic for minor luxuries and comforts.<sup>1</sup>

**Conditions of Returns in Production.** In a highly organised industry working under competitive conditions and enjoying only a small margin of returns, (such as the cotton industry in India at the present time) a tax on production (say an excise duty) will be borne by the consumer. If there is a larger margin between 'cost' and selling price, the tax will absorb the profits of the inefficient and weed out the inefficient, while only a small part of it will be shifted to the consumer. If a tax is levied proportionate to the output in an industry yielding increasing returns (more than proportionate to the marginal cost), demand remaining the same, the net addition to the price of the products of the industry will be very small; the consumers will bear the burden. In the case of constant returns the tax may be divided between the producer and the consumer; but under diminishing returns the tendency will be for the producer to shoulder the burden. It may have a beneficial effect also on his industry: the increasing cost of production aggravated by the new tax may lead to re-organisation or new modes of manufacture.

**Monopolistic Conditions.** Besides legal and sale monopolies, there are many varieties of economic mono-



polies such as municipal monopolies (gas, water, electricity) and giant businesses (Cartels, Trusts). The monopoly price is usually fixed according to the principle of 'maximum net return'. If the tax is proportional to the output of the industry, the producer will curtail the supply and charge higher prices to the consumers, who thus bear the burden of the tax. If the tax is proportioned to the monopoly revenue earned by the industry, the burden is borne by the producer. If the tax is a fixed sum on the industry irrespective of the revenue or output, the monopolist would so fix the price that he could still get the maximum net revenue. The new price may be the same as the old price before the imposition of the tax or a little more or less: the point is that the monopolist would still charge a rate that would give him the maximum net revenue.

#### 5. TAXES ON FOREIGN TRADE.

We have left out of consideration so far the influence of foreign trade on the prices of commodities in the taxing country; of course for the sake of convenience, not with a view to ignoring it. The whole world is to-day organised as one economic unit and the repercussions in New York or Hong-Kong will have their echoes in Bombay or London. Hence it is necessary to study how far taxes on foreign trade will affect the prices of goods in the home market.

**Import Duties.** The popular impression is that the incidences of import duties will be on the foreigner; but in nine cases out of ten it is the other way round. The general law is simple: the incidence will depend upon the relative elasticity of demand in the taxing

country and of supply in the taxed country.\* Thus as a rule: if the demand is urgent and inelastic, if the needs cannot be satisfied at all or satisfied to the fullest extent by home manufactures, the incidence will be on the taxing country. This argument holds good to an export trade under similar conditions. In either case the great influence of the competition of *other* countries is of great importance, and might change the whole position considerably. Further, there is the problem of the indebtedness of a taxing country, which is obliged to send her raw materials as payment of interest. If the supply of the taxed country is inelastic or could not be absorbed in other markets, while her demand for the raw products of the taxing country is almost inelastic, the incidence will be on the former. Such conditions however are absent in practice.

But there are a few cases where the foreigner pays the taxes: (1) When he is anxious to build up a market with the hope of ensuring a permanent footing later on. (2) When he is disposing of his surplus stock. (3) To avoid the closing down of his factory. (4) In the case of complementary goods the other parts of which can be marketed at a higher price. (5). When his business is a monopoly. (6) When the taxing country is a monopoly market. (7) If the commodities massed in a warehouse by the speculator fall in price, the incidence of the tax paid by him is on him.

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\* The very simplicity of the doctrine should not obscure the vast undercurrents of economic influences and friction that determine the course of foreign trade between one country and another. The student is referred to the brilliant analyses of Marshall in Money, Credit and Commerce. (Book iii. Chap. 1—VIII).

**Export Duties.** The incidence of export duties is always on the exporting country, unless the commodity, is a full and practical monopoly. But as we have already seen, a backward country has very little chance of dictating her terms to a highly industrialised country, which may be a creditor also.

#### 6. OTHER TAXES

**Interest.**—If a money-lender is taxed, the burden will be shifted to the borrower, provided the demand of the latter is inelastic. If the owners of stocks and shares are taxed, there can be no *immediate* shifting; for it will take some time before the shares can be withdrawn and invested elsewhere. In the long run it is likely to be shifted to the users of capital by the rise in the rates of interest owing to the curtailment of accumulation of capital or the export of capital abroad.

**Wages.**—If the wage earners have a margin, as they do have in advanced countries, a tax that falls on wages is likely to affect them, unless the new impost results in agitation and the increase of wages. The classical view that it will be shifted was based on the consideration of the "iron law" of wages. On the other hand a tax that falls on wages of a quasi-rent nature cannot be shifted.

**Profits.**—Taxes that fall on differential advantages (pure profits) may not be shifted; but those on gross profits may. In general, the longer the period the consumer will bear the burden, and shorter the period the producer.

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## CHAPTER XI

### THE EFFECTS AND BURDENS OF TAXATION

Take little by little as the leech, the calf and the bee take their food"—*Arthasastra*.

#### 1. TAXATION AND PRODUCTION

Taxation, on the face of it, effects an obvious reduction in an individual's *private* wealth or resources. Further the amount of taxation is irrespective of benefit received and in most cases does not bring any *direct money* return. These two considerations would make us believe that all taxation curtails production—a conclusion as hopelessly incorrect and misleading as it can be. In the first place, if the tax was levied on *all* that was available for production, which otherwise would have flowed into investments, the result would only be a curtailment of *private* production; it does not have any direct influence on *public* production as the tax falls 'surplus', and thus does not curtail private production. Secondly, the proceeds of taxation are spent in the investment of material and human resources, with the result that '*public* production' as a whole receives a great stimulus. This statement is true, if taxation is ideal and if expenditure is wise! Hence the exuberant enthusiasm for taxes as a 'fertilising shower' is fallacious. Taxation has good as well as bad effects.

History is full of instances of mistakes made by monarchs in drying up the sources of taxation by impo-

sing too heavy burdens on agriculture. The effect is (if the previous earnings are not touched) that (1) incentive to work and save is curtailed, (2) present ability to work and save is diminished because the tax payer will have little left for his necessities and comforts, (3) or there may be a diversion of his capital and labour to unprofitable occupations. The relevant considerations in a modern community are only (1) and (3) for no tax scheme trenches on the necessities of the people except in a country where the poor pay many indirect taxes without receiving at least equal benefit from state expenditures. (4) In the case of a tax on inherited wealth or on capital (capital levy) there is a further consideration—confiscation of the existing capital or its *disappearance*.<sup>1</sup> Nos. 2 and 4 are rightly called the *static* effects of taxation; while 1 and 3 are the *dynamic*. If we admit that taxation falls only on 'surplus' and the proceeds are spent to augment public or national capital, there has occurred no change in the total national wealth.\* Thus we are obliged to consider only the dynamic effects of taxation.

**Incentive to Save.** Saving is indeed "one of the highest of civic virtues"; for the accumulation of capital is ultimately responsible for the promotion of industries, employment and the fund for all future taxes. But there are many cases where *mere* savings and the accumulation of capital are not of any great use.

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I. Vide Ch. and Ch.

\* There was some truth in the contention of the classical economists against progression and the heavy taxation of the rich; for there was very little real surplus and taxes were imposed mainly for war expenditure. Needless to say that the old objections have lost all their meaning under the changed economic conditions.

*Private savings without opportunities* for investment of capital may lower the rates of interest and finally recoil on the willingness to save. There are harmful investments also; "during the nineteenth century the real interests of the country would have been better served if less had been invested in railways and more in housing." <sup>3</sup> Further it may be argued that 'saving' is not seriously affected by *mere* taxation. There are several factors that determine savings and one shrewd critic observes that "saving is automatic and does not depend on a nice balance of future advantages or the exercise of any individual will at all". As a general rule it may be stated that so long as taxation does not trench upon necessities or the margin, it may not have any adverse effect on savings; while in the case of the rich who have *opportunities* for making money, heavier taxation is a great incentive for saving. So much for taxation in *general*.

Taxation by one particular method as opposed to another, may have serious reactions on savings. Thus Rignano's scheme of death duties militates less against savings than the existing ones. Between a high income tax and a death duty the latter is preferable since it is definite in time and amount though it may be more advantageous for some to pay in "small doses" and by regular instalments an annual income tax.

It may be pointed out that in modern tax schemes every effort is made to minimise the reactions of taxation on savings. Thus 'differentiation' is introduced between earned and unearned incomes. Heavier

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3. Robinson, Public Finance P, 82.

taxation falls more and more on inherited wealth, wind-falls, big businesses or monopolies; that is on those which have greater ability to pay with the least hurt'. The expenditure policy also is in the direction of directly and indirectly encouraging production. The *total national* production is therefore greatly increased.

## 2. TAXATION AND DIVERSION OF RESOURCES

The chief effect of taxation in a modern community is the diversion of economic resources. Money is mulcted from the hands of the rich and is diverted to the poor in the shape of goods and services; from spendings-use to savings-use and in some instances from a less productive to a more productive channel. Thus taxation and expenditure involve a series of transfers of resources and the diversions are harmless so long as they promote greater economic welfare. But when a sugar factory is converted into a manufactory of poison gas there is a diminution of economic welfare. But in this place we are concerned with only the diversions caused by taxation.

Taxation might divert money from a savings—use to a spendings—use if it falls heavily on the poor or the middle classes who have very little margin. On the other hand a tax that falls on the superfluous portion of a big fortune has the opposite effect.

Taxation causes enormous diversions when it is a 'differential one' discriminating against one kind of saving, investment or spending. Thus a heavy tax on land diverts capital for investment in industries and *vice versa*. Dr. Dalton instances the case of the building trade in England "which is discouraged by the heavy local rates." The supply of houses and other buildings

is consequently smaller than it would otherwise have been and there is a presumption that the capital and labour which are diverted to other employments are less productive there".

Diversion from one locality to another or from one country to another is a common feature. Taxation of urban dwellings might lead to the diversion of resources to country residences. The export of capital when taxation is high is also feared in England. Capital also flies to other countries to take shelter under the high protective tariff.

By far the largest diversions take place on account of protection. Vested interests are created in particular industries as a result of a high tariff. Protection sometimes curtails exports and to that extent imports are checked. Home industries suffer when the purchasing power of the citizens is diminished. Particular industries may be benefited or ruined.

### 3. TAXATION AND DISTRIBUTION.

The ideal of distribution is not an equal sharing of all the available income; it is rather the sharing of the national dividend according to the capacity to make use of it. The ethics and the practicability of such a scheme may be questioned but the results of modern taxation are such as to redress the inequalities to some extent at least. Dr. Stamp maintains that redistribution of wealth by taxation is not the avowed policy of the state, but is an accidental consequence. He remarks humourously that it is like "marrying not for the sake of money, but where it happens to be."

Certain taxes tend to accentuate the inequalities of income: the capitation tax, taxes on necessaries and



other commodities of general consumption and heavy taxes on agricultural land. But steeply graduated income taxes, death duties, taxation of companies and excess profits, of windfalls and urban lands, tend to check the accumulation of giant fortunes. Protection for particular industries controlled by a few rich may also have the same effect.

The view is sometimes expressed that when the rich tax payers are themselves the interest receivers, taxation does not affect the distribution of wealth. Dr. Dalton observes thus: "The present annual yield of income-tax and super-tax (£ 326,000,000) is only slightly greater than the present annual interest charge on the debt of £ 305,000,000. The present situation therefore is that *income-tax and super-tax payers as such have practically ceased to make any contribution to the current expenses of the country as represented by the supply services*".<sup>5</sup>

#### 4. TAXABLE CAPACITY.

Taxable capacity has been the subject of great controversy and much divergency of opinions among economists. While some asserted that the limit of taxable capacity of England has been reached, others denied it completely. Professor Cannon said it can be determined 'Nohow', and Dalton is more emphatic still. "Absolute taxable capacity is a myth which is apt to engender grave errors."

The concept is generally understood to mean "the difference between the total quantity of production and

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5. Public-Finance P. 143. It is surprising that such an obvious fallacy as this—since the creditors are receiving interest as *investors* just as much as they would if they had put their money in banks or industries—should come from such a high authority.

the total quantity of consumption". In other words the taxable maximum  $Z$  is  $= (x-y)$  where  $x$  is the total social income and  $Y$  the minimum necessary for private economy. From the point of view of the State  $Z$  may be the "limit of squeezability". The difficulty however is that both  $x$  and  $y$  are variables and their relations cannot be fixed by arbitrary ratios. For instance, during a grave crisis people may eat less, travel less, wear fewer clothes and thus set free their private resources to swell the fund  $Z$ ; in the same way in an extraordinary industrial boom people might build more factories or erect new machinery and thus might feel the weight of taxation which touches the funds that may be needed for investments. The individual may not be willing to spare any thing out of  $x$ ! Thus all attempts to define in exact arithmetical quantities or in vague terms such as 'without affecting production *unduly*' is futile. Nor can it be decided when capital is exported abroad or when people borrow from the banks to pay the taxes. The methods for arriving at an exact measurement of  $Z$  proposed by Sir Josiah Stamp are also faulty. Taxable capacity for a nation is an extremely nebulous and indeterminate quantum.

There is one solution to this difficulty. If *all* taxation were to fall *only* on "net incoming wealth" represented in money in any one year, taxable capacity is easily measurable. Since taxation at the present time falls indifferently on expenditure, on capital and on gross income, the measurement is vitiated by these other considerations.

The view of Dalton that "relative taxable capacity is a reality" is equally fallacious. If absolute taxable

capacity is indeterminable, comparison between one country and another on the same basis is also indefensible.

#### 5. THE BURDEN OF TAXATION

Taxation is a burden—though some writers object even to the terminology<sup>6</sup>—in so far as the money taken away is a deduction from the individual's resources and that it carries no guarantee of any *quid pro quo*. This is from the *individual* point of view; but there is no burden from the point of view of the community as a whole except when the money is an exhaustive expenditure or a payment to the foreigners.

We may distinguish between two kinds of burdens; subjective and objective, or real and direct. The suffering that is caused by taxation, both in the process of collection and in its effects is the real burden. The money burden is represented by the total exhaustive expenditure met from tax funds. Money burden is again a relative conception; it is likely to be heavier in a poor country than in a rich country though the total amount of taxation may be the same in both countries. The same is true, if the bulk of the revenue is contributed by a large majority of people of average means: for the total aggregate sacrifice is greater in a community where wealth is more evenly distributed.

The real burdens or, to use a more explicit phrase, the 'invisible money, burdens' are manifold. (1) Heavy luxury taxation, especially when it strikes a rising class may lead to cutting down of expenditure in comforts. (2) Taxes on articles of food causes not only an immediate loss of satisfaction to the poor, but deprives them also

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6. Adams. "We should then call our coal bill a burden."

of their purchasing power *for other* desirable commodities. (3) A tax on the raw materials of manufacture, on machinery or on the finished products of industry, especially in a time of depression or the imposition of customs on their imports in a foreign market, will ultimately check all enterprise and cause considerable losses (4). If a heavy income tax is levied on a rising class so as to deprive it of all its margin for savings, the invisible money-burdens both on the individuals who are immediately affected and on the community in general appear at their worst.

The subjective burden is not capable of exact measurement. The feeling of a loss of satisfaction by the taxpayers when they part with their money; the time lost in the preparation and the sending of income-tax returns and the incidental legal expenses involved; the inconvenience and discomfort caused to business as a result of the valuation of general property; and the shifting of most of the indirect taxes all cause many subjective burdens. No tax scheme has ever been devised which takes away money from the people without causing the least hurt; but that which imposes avoidable or unnecessary burdens owing to imperfect administration is to be deprecated. To the loss of satisfaction and discomfort caused by taxation may be set off the benefit received from expenditure without effort. So in a comparative estimate of tax burdens, in democratic countries, this item may be ignored.

The relevant considerations regarding the visible and invisible money burdens are (1) the per capita income and taxation, (2) the distribution of wealth in the community, (3) the proportion of direct to indirect taxes.

or the tax burdens of the various classes in the community severally, (4) the proportion of exhaustive expenditure to transfer expenditure and the proportion of each to the total tax revenues. The last is sometimes the most important factor. A comparative estimate of tax burdens in the different countries at any given time should be based upon the differences in the real values of the respective currencies as well.

#### EXERCISES.

- (1) "All government spending is a waste."
  - (2) "The Government spends better than the individual." How do you reconcile the two statements?
  - (3) In what ways could government expenditure be made to increase production and better distribution of wealth?
  - (4) Estimate the effects of Indian Public Expenditures?
  - (5) How would you determine the taxable capacity of India.
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## CHAPTER XII

### PUBLIC DEBT

"Public Debt is neither a good nor an evil by itself" Bastable.

#### 1. GROWTH OF PUBLIC DEBT.

The phenomenon of Public Debt is a comparatively modern one. In all countries State hoards have been the rule. Owing to many causes, the chief among which being the instability of the monarch, the absence of a systematic taxation and the absence of credit, the precious metals were regarded as treasure par excellence. We hear of State hoardings in the Delphic temple in Rome and in other countries. Prussia kept a large reserve of precious metals even in the 19th century. But this policy has been given up in the modern times.

A *prima facie* case can be established against any policy of state reserves. (1) Withdrawal of money will reduce the supply of capital in the country and in cause serious inflation of prices. (2) If any large reserve is kept in the shape of stocks and securities, the government might lose considerable sums if they depreciate in value. Further, in times of crisis the securities are not easily saleable. (3) Reserves and surpluses in the hands of a Government are likely to result in unwise legislation. (4) If the reserve is built from the surplus funds of taxation, it is even more objectionable; because, as Gladstone put it, it is a safer and a more economical policy to allow money to fructify in the pockets of the people.

This policy is also obsolete. For, credit has taken the place. A Government whose credit stands high can raise any amount of loan. This is possible, because of the immense banking organisation in the country. The creation of Public Debt is closely associated with banking development as is evidenced in the case of Holland and England.

At the present time every country has large accumulations of debts. (1) Wars have been the most potential cause. Nearly 70% of the debts in each country are due to wars. (2) The increased socialistic activities have resulted in large Governmental loans for schemes of social welfare. (3) Municipal development has been responsible for the creation of local debts, for the construction of public works such as tramways, gas works and water works. The enormous increase in the growth of debts is no cause for alarm, although Adam Smith sounded such a note so early as the 18th century. "The enormous debts at present oppress and will in the long run probably ruin all the great nations of Europe." For, a fair portion of the Public Debts, (unlike the war debts of that great economist's days) represents capital expenditure on productive works.

## 2. THE NATURE OF PUBLIC CREDIT AND LOANS.

In any loan transaction the creditor looks to the ability and the willingness of the borrower to repay the loan. In other words it depends on the confidence inspired by the borrower. Confidence is entirely a subjective aspect, and hence very often an objective security is taken, in case the creditor has reasons to doubt the confidence of the borrower.

When the State enters the money market as a borrower, its character is not very different from that of a private individual because it offers its bonds for sale in the same way as a private individual does. The bond is a promisory note and stipulates all the terms of the loan:—the amount, the rate of interest and the period of repayment. The bond is honoured in the same way as a banker regards a bill of exchange for discounting purposes.

But there are striking differences between private and public credit. (1) In the first place the credit of the State is very high; the State's ability to pay is beyond all doubt. (2) Secondly, the security which underlies a public bond is entirely subjective, that is the credit of the State, although it has reference to the future revenues. The bond holder has no legal claim over any of the future revenues. If the State suffers any loss the creditor automatically shares in it. (3) Thirdly, the perpetuity of the state is an important factor; most public loans are long-dated and run into very long periods. (4) Lastly, the sovereignty of the State is not impaired by its becoming a debtor to its citizens or to a foreign Government. It can at any time resort to repudiation of debts, for which action it is not legally cognisable.

Government loans, in all countries they are the safest form of investment. The investor has no doubt whatever regarding the safety of his principal where—as interest will be paid out from current revenues. Government paper for that reason carries a very low rate of interest and is the most easily negotiable in the Stock Exchange Market. Banks readily grant loans



on the security of Government bonds because they are considered as first-class or 'gilt-edged' securities.

In spite of the attractiveness of Government loans, it must be confessed that they are not very 'productive' *i. e.*, large interest-yielding. Further, they are liable to be converted *i. e.*, the rate of interest reduced from time to time. Worst of all they may at any time during a grave crisis be repudiated.

Public loans have been described sometimes as "anticipatory revenues," because they are to be paid out of the future revenues of the State. But this is not quite correct; "the difference between revenues by taxation and those by loans is a fundamental one; the former vests on coercion and the latter on agreement; the former emphasises the public interest when contemplating the relations of the State and the individual and the latter mainly the private interests of the lending classes." (Adam. P. 518). Loans are simply a deduction from future revenues. They do not represent any future accretions to the wealth of the State. Hence the statement that public loans are "realised alchemy" is utterly incorrect. They are "anticipatory revenues" in a very narrow and limited sense.

### 3. THE PLACE OF LOANS IN PUBLIC FINANCE

Loan, as such, is undesirable and is shunned by any individual except it were for extraordinarily productive purposes. It would certainly be very desirable if it were practicable to avoid all public loans. And Victorian financial opinion was in favour of meeting all expenditure, both ordinary and extraordinary, from current revenues. But a strict adherence to this principle

seems to be absurd and harmful. Loans have a very important place in the financial system of any country.

(1) In normal times the entire portion of a Government's ordinary expenditure should be met out of current revenues. To meet the regular and ordinary expenditure by borrowing would lead to large accumulations of debt the weight of which would be oppressive on the whole nation. Such a system of finance throws discredit on the efficiency of the financial administration and would seriously damage national credit. If the debts are allowed to accumulate they might swallow up all the revenues. Hence it is desirable that current expenditure should be met out of current revenues. If bad years intervene, the surpluses of good years should be allowed to compensate for them. This is a golden rule for current expenditure.

(2) Regarding government expenditure devoted to the construction of public works, the simple rule enunciated above does not seem to hold good. In the first place, it is impossible to raise all the revenue necessary for meeting such huge expenditures; for violent and sudden changes in the tax system are undesirable. The rates cannot be put up just as the Finance Minister fancies. Secondly, such productive works will be revenue-yielding. Those who are directly benefitted or the purchasers of these services, will be paying fees. Hence, loans raised for this purpose are in the nature of capital expenditures, and therefore not objectionable. Thirdly, in such expenditures as the construction of roads, water-ways etc., it is not only the present generation but also the future that will be benefitted. And both on moral and fiscal grounds, it is unwise to impose too large a burden on the present generation for

the sake of posterity. If the funds are spread over a number of years by means of long-dated loans the injustice vanishes. Hence the case for loans.

On the other hand, it has been argued that productive works should be undertaken out of current revenues, because such expenditure would lead to compulsory savings on the part of the people. In the end the revenues arising from the productive works will be in the nature of a "consumer's surplus." Thus the Indian Government met a fair portion of its expenditures out of revenue surpluses. Such a policy is not open to any objection provided the funds so raised do not trench on the necessities of the citizens. The principle is also of wider application regarding social services, as Prof. Bastable has pointed out. "National culture, education, the promotion of social progress are all most desirable but their promotion is not so pressing an object as to need the use of borrowing by the public powers..... The results of expenditure of this kind are hard to trace or measure and any statement respecting them must rest in a great degree of conjecture. The cost of the loan is precise and definite and it constitutes a real burden on the further resources of the state. Prudence seems accordingly to suggest that borrowing should hardly ever be adopted except for strictly economic expenditure and then only when the extension of the State domains is clearly advisable."

There remains the question of war expenditure, usually described as 'unproductive'. Surely no well-meaning individual incurs any unproductive expenditure out of borrowed money. But in the case of the State such a course of action is beyond the realm of practicability. In the first place the sudden out-break of war

makes it impossible for any laws being passed for new taxation and it will take much time for the collection of the proceeds. Secondly, further taxation may lead to social unrest and political discontent. Thirdly, no tax system can bear sudden alterations and changes from year to year. Current revenues will be entirely inadequate to meet the high demands of war. Fourthly, any violent change in the tax system would bring about disorganisation of trade and industry, the maintenance of which is highly essential in the interests of the War Minister to draw funds for current expenditure. Lastly, there is the question of burdening the present generation for benefits accruing to posterity also. Hence economists and statesmen are of opinion that war expenditure should be met out of loans.

The case for loans is further strengthened by the fact that they constitute no real burdens on the community, provided the loans are raised within the country. For money raised by taxation is devoted to the repayment of principal and interest. All that happens is a transfer of income from one section of the community to another; or, as Prof. Pigou puts it humourously "from one pocket to another in the same coat."\* The money when repaid is likely to be reinvested in industries, and posterity comes in possession of new capital which it has been induced by the fiscal expedients of the State to create. Another strong argument in favour of loans is that the cost of levying a loan is insignificant, when compared with that of a tax. The indirect reaction and industry consequent on a tax-levy are very often adverse while loan operations involve no such losses.

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\* "The right hand pays to the left hand"—Nicholson

"Society is in debt to part of itself"—Macaulay.

Modern financial opinion is however in favour of a policy of increased taxation to finance the war. Just as universal conscription solves the problem of man force (since the cost of mercenary soldiers would be enormous) so should the State levy extraordinary taxes to meet the cost of the purchase of goods and services.\* The people should eat less, travel less and spend less and place at the disposal of the State more goods and services; or pay more taxes into the Treasury to buy those goods and services. To depend upon a few taxes and to be alarmed at the announcement of new taxes is a folly. The problem of borrowing is a blind alley; worse still is the method of inflation which helps people to spend more and face ruin in the end. Heavy taxation, it may be feared will dislocate business. But when "business is as usual," it is a dangerous symptom. It should have been a state of "nothing as usual," and "sacrifice for every one."<sup>1</sup>

Again, when taxes are imposed, other things being equal, greater efforts are made to meet the taxes by harder work and by economy of consumption. Thus no real hardship is thrown on the people.

If taxes are imposed, the burdens are distributed equitably, whereas the same result cannot be achieved under a loan plan. The rich could easily subscribe to loans and thus escape the real burdens of taxation. Further more, when taxes are imposed for the repayment of interest or principal, it is the poor who will be hit harder than the rich. This conclusion is proved statistically. "In Great Britain, in 1925-26, the net produce

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\* In a national Crisis the call from each should be for his *utmost* rather than his *share*—Pigou, P. 246.

1. J. E. Allen. The War Debt, P. 57.

of income-tax and super-tax was £295 m. and of death duties £50 m. making 345 millions in all, while the interest on national debt amounted to 273 millions. It appears that practically the whole of the contribution to the national revenue made by the income-tax paying class was absorbed in financing a debt in the main held by members of that class" <sup>2</sup>. What is lost by Peter (the poor) is gained by Paul (the rich).

It is not easily realised that to raise taxes at a time of inflated prices is one of the surest methods of checking further inflation. There will be no real loss of capital or income, for the inflated wealth in the hands of the rich is only "paper wealth". To absorb this "war wealth" to pay for goods and services at "war prices" is wise economy and sound currency policy. It is on this score that capital levy has been advocated during the war or immediately after the close of the war.

Lastly, there is the consideration of the effects of loans on the expansion of bank credits and consequent inflation of prices. For, whereas loan bonds can be placed as collaterals in banks by the bond holders, the tax payers cannot offer any such security and thus obtain credits for payment of taxes.

The case for taxation is theoretically strong. If the nation would understand the real implications of loans, or rather if the rich would submit themselves to such a drastic taxation the finance minister's task is delightfully simple. The difficulty of administering these extraordinary taxes without evasions is however

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2. Pigou. Public Finance, p. 244.

immense.\* Thus *practical* considerations are in favour of loans, inflation and a few new taxes here and there.

#### 4. THE TECHNIQUE SOURCES AND EFFECTS OF BORROWINGS.

In the Middle Ages the monarchs appealed to the patriotic motives of the people and raised monies for public expenditure. The French Revolutionaries did so to some extent. "Liberty loans" were floated in America in modern times. These methods are as dangerous to public credit as the levy of "compulsory loans" as practised by the financiers of Henry VII. Forced loans in the shape of printing paper currency is the worst method of all; for it will lead to inflation of prices and the break down of the credit machinery and national commerce.

Hence a public loan should take the form of an ordinary private loan stipulating the amount, the rate of interest and the time of re-payment. The time of repayment is an important factor. "Temporary debts should be drawn with a view to their quick payment, exigency debts with a view to their conversion and investment loans with a view to their gradual expungement." (Adams).

A prudent financier never sacrifices future revenues for the sake of immediate returns. So, as a rule, tax-free loans should be avoided. Instead, attractive rates of interest may be offered since the Government can at any time effect conversions.

The rate of interest should not be above the market rate, lest it should create a keen competition in the money market. A loan should never draw capital from indus-

\*The Fabians but forward a plan which is simplicity itself. It is or forcibly taking over *all incomes* over and above after allowing a deduction of £ 1000 to each member of the family.

tries; rather, it should absorb only "Free Capital." Much depends, however, on the use to which the loan is put to. If it is for a commercial and productive public work, it does not make much difference. If the money is spent on war, production is seriously disturbed and unemployment may increase consequent on the disorganisation of industry. Loans placed at abnormally high rates of interest are followed by most unfortunate results. The permanent interest of the treasury and the social interest of the community are always opposed to this policy. The rate is as important as the time factor.

Regarding the sources of borrowings, it is safer to borrow in the home market itself for various reasons: (1) When repayment is made, no burdens are imposed on the community; it constitutes only a transfer of money from one pocket to another. (2) Government loans provide the best and the safest method of investment for all classes of people. In a backward country, they are likely to result in the growth of investment habits and banking developments. (3) If borrowings are for purposes of development works, the case is even more strong because of the addition of a large consumer's surplus. But loans should never trench on the productive resources of the citizens.

The older view was that "the loan came from the capital and taxes from annual income; the former reduces the fund that assists production; the latter curtails immediate enjoyments. By borrowing we are sacrificing the interests of the future for immediate relief." Obviously this view is based on the assumption that there will be harmful diversions which however are not always true.



A poor and backward country cannot but borrow in the foreign market, in spite of the many disadvantages. Even advanced countries resort to that expedient in times of great wars. But a foreign loan, under ordinary conditions, is highly objectionable, for several reasons: (1) the loss of national honour; (2) borrowings in war time would have to be made at very high rates of interest, whereas when repayments are made, general prices would have fallen, and therefore the real burdens would have increased; (3) unfavourable balance of trade would lead to fluctuations in exchange rates. Further, the manufacturing creditor country may be able to compete very successfully in the markets of her debtor rivals, as America does at the present time. (4) If the money is contracted for productive purposes foreign enterprise will also be saddled with foreign capital as has proved in India (Railways and Industries). There is much truth in the condemnation of foreign debts by all classical economists as "ruinous beyond all controversy."

##### 5. CLASSIFICATION OF PUBLIC LOANS.

Public loans may be classified from many different stand-points: for example, loans have been classified into "External" and "Internal" according to the sources from which they are drawn; "productive" and unproductive" from the point of view of the purposes for which they are contracted; "forced", "voluntary" and "contractual", on the basis of the nature of the loans; and "terminable" and "non-terminable" or "temporary" and "permanent" from the point of view of the duration of the loans.

By far the best classification adopted by most writers is the one from the point of view of the character of the

loan, *viz.*, "floating" or "casual" "funded" and "unfunded".

**The floating debt** is the simplest. It is incurred to meet temporary budget deficits to be paid off by the surpluses of the coming year. They are never borrowed for more than a year and are usually raised by the sale of "Treasury Bills," "Exchequer Bonds" or by taking Ways and Means Advances, from the Central Bank. A too frequent resort to such casual loans as is done by the Indian Government is highly objectionable. For, such short-dated loans carry very high rates of interest. Treasury advances cause tightness in the money market and the rise of the bank rate; and above all, they reflect on the inability of the Finance Minister to make accurate budget estimates. But in the case of the Indian Government there is some justification because, as has been well described, our budget is a "gamble in rains" *i.e.*, one of the important sources of income, land-revenue, is a fluctuating factor, dependent on the vagaries of the monsoon.

**Unfunded debt.** The unfunded debt consists of loans borrowed at different times at different rates and kept separate. The interest and the principal are to be paid year after year according to the term of each separate loan. Unfunded debt may at any time be funded or redeemed by the Government before maturity. In 1919 Great Britain adopted a method of borrowing long-term loans called "Funding Loans" to pay off maturing floating debts.

**Funded Debt** is the consolidated debt of unfunded loans, a famous example of which is the British 'Consols'. In British financial parlance the principal of the funded

debt is never repayable. The distinction between funded and unfunded debts is becoming obsolete.

#### 6. THE REPAYMENT OF DEBTS.

**Necessity.** Repayment of loans is a great moral obligation. Nothing like the prompt discharge of debts enhances the credit of the nation and attracts future lendings.

Besides the moral obligation there is a *prima facie* case for repayment on fiscal grounds, especially of all loans contracted for "exhaustive" expenditure. For, when the loan was raised, money was subscribed either from the free capital of the people or by effecting economies in consumption or by withdrawing resources from other industries. Unless it is repaid with interest industry and trade suffer loss for want of that capital which has been lent to the Government. Thus repayment of an internal loan amounts to the creation of "fresh capital", to compensate for the loss of capital lent to Government. As Prof. Adams says, "the redemption of debt is a mode of increasing the amount of national capital. The labour required to create it constitutes the burden imposed on the nation."

It may be pointed out further that when the debt is repaid it will be reinvested in industries more effectively by private individuals and hence will finally increase national wealth. It is for this reason that debt is said to be a 'burden on industries'. The repayment accentuates the development of industries.

On the other hand some people argue that since the repayment of an internal debt by taxation or inflation is merely a transfer from one section of the community to another, from the poor to the relatively richer, the

Government is justified in repudiating debts altogether. This argument apart from the violation of the pledges and promises of the State, is unsound. For many poor people who have lent to the Government all their savings, would suffer heavily in case of repudiation. Further, a moderate increase in taxation all round for the payment of the debt will lead to improvements in production or economies in consumption, thus leading to a creation of "fresh capital", out of which taxes could be paid. Non-payment does not produce such incentives. What is worse, it may act as a check on further creation of wealth, because of the undue burdens imposed on industry by the loss of capital on the part of the rich and of the lowering of the standard of living on the part of the poor.

With regard to the repayment of foreign debts, the moral and the legal obligations weigh heavily, much more than the fiscal or economic advantages. Some times the repudiating country is isolated in diplomatic and trade relations with other countries, as is the case with Russia.

**Rate of Repayment.** The rate of repayment depends on the capacity of the people to meet fresh taxation. A heavy national debt is sometimes a great stimulus to industry and trade. Thus is Germany repaying rapidly her foreign debts. But this does not mean that the repayment should be postponed. As long as the debt remains unpaid, interest charges will be a burden on the people; fresh taxation will lead to inflation of prices; inflation will lead to rise in the exchange rate or unfavourable balance of trade. Hence it is desirable to pay off the debts as quickly as possible, but it must be remembered that if fresh taxation trenches on the capital equipment

of the country, thus destroying the future productivity, postponement and gradual repayment is the best policy. As Shirras puts it humorously, "the tax-payer's alternative is between an aching tooth pulled out quickly or let it continue to ache."

The rate of the repayment of debt depends as much upon the size of the debt as on the national wealth. As a general rule it may be stated that "the greater the wealth, and the smaller the debt, the faster should the debt be repaid; conversely, the smaller the wealth, the greater the debt, the slower should the debt be repaid." This rule applies with great force to foreign loans.

#### 7. METHODS OF REPAYMENT.

**Conversion**, that is, altering the rate of interest. Apparently the Government alteration of interest seems to be unjustifiable; but the real fact is otherwise. Suppose the original debt was at 7% and the present market rate is  $3\frac{1}{2}\%$ , obviously the finance minister can now float a new loan at  $3\frac{1}{2}\%$  and pay off the old debt. Thus conversion is only an indirect method of contracting a new loan at the new market rate of interest. As Prof. Adams says, "the reduction of interest through conversion is the reward which comes from the scrupulous application of commercial honesty to public affairs."

There is a further economic consideration for the reduction of interest. Public Bonds form the most easily negotiable instruments and gilt-edged securities for credit purposes. Their value should, therefore, be kept strictly to the level of the discount rate of the money market. Otherwise there will be a keen compe-

tion for Government bonds and their rate will influence the value of other securities adversely and this would affect adversely again the course of trade and employment. On the other hand, the Government does not and will not raise the rate of interest if the general rate of interest rises. This is another example of the policy of "heads-I-win and tails-you-loose" policy of the state, in Public Finance. A justification put forward by Adams for this policy is this: "It is a penalty", says he, "justly imposed upon people careless of their public credit."

Conversion does not commend itself to the bondholders, where they form the richer and the powerful section of the community. But when the Finance Minister effects conversion at the psychological moment the opposition might vanish. Much tact is necessary and the financial situation should be carefully fathomed. A close touch with the banks, "the nerve-centre" of the monetary world, is all that is wanted. Goschen converted a debt of £ 20 million into one of £ 10 millions by reducing the rate from 7% to 3½% in 1888, which was further reduced to 2¾% in 1903 and to 2½% after that date.

The modern method of conversion is to raise a fresh loan called the "Conversion Loan" similar to the "Funding Loan." In the case of long-term loans this opportunity occurs only at the end of long periods. And hence substantial reduction in debt or interest is not possible. Further, it is a very slow method, for years must elapse before a reduction of 1% can be achieved.

**Sinking Funds.**—Almost all loans in modern times are accompanied by provisions of sinking funds. The money put into the Sinking Fund may be used to pay

off the interest of the debt year after year together with a portion of the principal. The importance of the establishment of the Sinking Fund lies in the fact that it provides a stimulus to the repayment of the debt. Obviously, the money to be put into the Sinking Fund must come from the surpluses of the revenues, and not out of loans. "The excess of revenue above expenditure is the only real sinking fund by which public debt can be discharged" (Hamilton). If the funds are raised the utility of the Sinking Fund is of doubtful benefit. If loans are raised for Sinking Fund purposes, it is like "digging one hole to fill another."

A disregard of some of the principles enunciated above was the cause for the failure of the Younger Pitt's scheme of Sinking Fund. Money was borrowed and placed at the disposal of the Commissioners of Sinking Fund. Needy Finance Ministers raided upon it and never cared to continue the policy of placing surpluses in the Sinking Fund. Further, the accumulated reserve in the Fund was not bearing any interest.

Although Sinking Funds were much discredited in the 18th century owing to the illusory schemes put forward by many writers, the institution has come to stay on account of its obvious merits.

**Annuities.**—This is a method of liquidation, on the plan of life insurance. In the case of a life annuity the Government pays a stipulated sum over a period of the life of an individual. The East India Company's debts were wiped out on this plan. This is more or less an automatic sinking fund.

There are other forms of annuities. "A deferred or reversional annuity is one that does not commence until after a certain period of years or after the decease of a

person". "A Tontine annuity is one which is shared by subscribers to a loan with the benefit of survivorship, the annuities being increased as the subscribers die until at last the whole goes to the last survivor or the last two or three according to the terms of the tontine". (Shirras, p. 476).

**War Debts.** The extraordinary methods for the repayment of war debts are described in another section.\*

#### 7. THE BURDEN OF PUBLIC DEBTS.

The burden of public debts is a highly complicated problem. First of all, the most obvious burden is the "direct money burden"; that is what is represented by the total amount of debt. Secondly, there may be "indirect money burdens," that is, money losses incurred but not plainly noticed by everybody, because they are disguised. For example, if the debt is contracted at the time of rising prices the total amount of debt is actually more than what is represented by the nominal sum of the debt. Thirdly, a country may suffer "direct real burdens" on account of the debt, if the repayment of the debt depresses industry and trade; that is direct losses to the productive instruments of the country. Fourthly a debt may cause "indirect real burdens also; that is causing losses to industry and trade indirectly. For example, the payment of a debt involves drastic reduction of the standard of living of the workers, if there is indirect taxation of necessaries of life.

The burden of the debt may be either at the time of the contraction of the debt or during the period of its continuance or at the time of its repayment.

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\* Vide ch. XIII. Sec. 4



The burden is different in the different cases of internal and external debts.

i. INTERNAL LOANS.

(1). The contraction of internal loans does not constitute any burden at all in certain cases. For example, if there is surplus free capital, or if the country is backward and poor in banking facilities, the floatation of public loans is a great advantage. Similarly, if money is raised for productive purposes. But if the Government loan affects adversely the supply of industrial capital, and if the money so raised is spent unproductively, "the labour required to create again the capital thus destroyed constitutes the burden imposed on the nation." This we may call the direct money burden. Any other indirect consequences constitute indirect real burden. The total amount of the unproductive debt represents the "direct money burden."

(2) The continuance of the unproductive debt might have adverse reactions on trade and industry, thus causing direct and indirect real burdens.

(3) The repayment does not constitute any direct money burden because the process involves a transfer of money from one pocket to another. As Macaulay puts it effectively, "society is in debt to a part of itself." But there may be a small "indirect money burden" if we take into account the cost of collection of the money raised by taxation to pay off the debts. Though there are no direct money burdens imposed by the repayment of an internal loan, the "real burdens" both direct and indirect may be considerable, if not overwhelming; especially when the debt is high. For example, the payment of interest and principal must be met out of

taxes. The interest receivers are mostly the rich and hence the transfer of wealth accentuates the existing inequality of incomes. "The debt will involve a direct real burden or a direct real benefit to the country according to this series of transfers from tax payer to public creditors increases or decreases the inequality of incomes."

If the British debt consisted exclusively of savings certificates held by the wage-earners and if British taxation consisted exclusively of income tax and death duties on the wealthy, the British debt transactions would involve a large direct real benefit to the community. But the actual facts are very different from this, both in this country and elsewhere." (Dalton, p. 191). The lowering of the standard of living and other indirect consequences as a result of taxation constitute the indirect real burden.

Direct and Indirect burdens arise also from the time of the repayment.

## ii. EXTERNAL LOANS

(1) The contraction of foreign loans may be either beneficial or harmful according to the circumstances of the borrowing country and the purposes for which they are put to. The external debt sometimes acts as a stimulous to the home industry. Thus, though there may be "direct money burdens" represented by the amount of debt and "indirect money burdens" consequent on the expenses of the collection of taxes and of the remittance of the same to the creditor-country, there may not be any direct or indirect real burdens. There may be even a positive gain. But if foreign capital has been imported with foreign enterprise, thus

acting as a check to the development or the effective working of the native industries, the real burdens are indeed very great.

(2) Many burdens are thrown upon the debtor country at the time of repayment. If the debts are repaid at a time of falling prices, the money costs of payment increases. For, the discharge of international indebtedness takes the form of paying goods and services. Again, at a time of falling prices money incomes appear reduced and hence tax in revenue also will be less. Thus, the indirect money burdens are really great if the debt is paid on a period of falling prices. Consequently the direct money burden becomes less, if the obligations are wiped off at a time of rising prices.

(3) The real burdens, both direct and indirect, are heavier or lighter according as the repayment of the loan places the debtor country on a plane of worse or better footing in international competition with the creditor country. A debtor country like England suffers adversely in competition with a creditor country like America in the world market, because of the poor credit facilities. The real burdens, both direct and indirect are great.

(4) Indirect real burdens may arise from another source, that is, if expenditure on social services were to be cut down for meeting debt charges.

### iii. MEASUREMENT OF THE BURDEN

Any estimate or measurement of the debt burdens of a country will be misleading and useless unless the "real burdens" both direct and indirect are taken into account. In fact, it is the weight of the real burdens that consti-

constitutes the greatest obstacle to the economic prosperity of a country,

Hence the simplest method of measuring it by the total money amount of the debt, is useless. For it does not take into account the interest charges, the rate of interest at which money was borrowed and is repaid, the time of payment and finally all the important "real burdens". Another important factor is the character of the debt. A productive debt is no burden at all.

Another proposed method is the *per capita* calculation. There is no need to point out that this too is defective for the reasons shown in the previous case. *Per Capita* method does not accurately measure the burden, because the financial stability and strength of a country may differ from those of another.

A third method suggested is to compare the annual debt charges in their relation to national income. India's estimated wealth is £ 10,000 millions; that of Great Britain £ 20,000 millions; and that of U. S. A., £ 72,000 millions. The relative debt charges in millions are 585; 8000 and 4700. The relative burdens can, therefore, be expressed as 6: 6½: 39. The glaring defect of this comparison is that no distinction is made between productive and unproductive debts and that no account is taken of the "real burdens."

Equally defective is the other method proposed; *viz.*, to compare the total debt charges in their relation to state expenditure. A combination of this and the previous one may be of some value.

If any estimate is to be made for purpose of comparison of the debt burdens of one country with those of another, it should be based on the money burdens and

the real burdens, both direct and indirect. Statistically it is an impossibility.

### EXERCISES

1. Account for the enormous public debts of to-day.
2. Point out the differences between private and public loans.
3. Discuss the relative merits and demerits of internal and external loans.
4. "Public debt is neither a good nor an evil by itself." (Bastable). Discuss.
5. What expenditure should be charged to revenue and what to capital? Give reasons.
6. "By borrowing we are sacrificing the interests of the future for immediate relief." Do you agree?
7. Classify carefully the public debts of a country.
8. What general principles do you adopt for raising a loan?
9. Consider the advantages of 'conversion' and 'sinking' fund as methods of repayment.
10. Why and how a public debt should be paid off?
11. What is meant by the burdens of public debts? How do they arise, and how can they be measured?
12. Should a war be financed by taxes or loans?

## THE PUBLIC DEBT OF INDIA.

**Origin and Magnitude.** The wars and conquests, the 'investments' and 'home charges' of the East India Company were responsible for large borrowings in England despite revenue surpluses. The total debt amounted to £ 49 millions including the purchase price of £ 12 m. of the capital of the East India Company in 1857 when the administration was taken over by the Crown. The charges for quelling the Mutiny were also added to this sum making the total debt £93 m. This was the purchase price which India had to pay to obtain the British connection.<sup>1</sup> Under the Crown money was borrowed for the construction of railways and irrigation works, and thus arose the distinction between productive and unproductive debt from the year 1875. Borrowing was discontinued for some time and resort was made to utilise the revenue surpluses for the construction of productive works. Thus by mere adjustment of accounts the unproductive debt of £ 93 m. was reduced as the amount of the productive debt was increased. In 1913 the productive debt was shown at Rs. 390 crores while the unproductive portion had shrunk to Rs. 1 crore. But with the era of the Great War and the Reforms, the unproductive debt took an up-ward curve. The war contribution of Rs. 150 crores to England and the cost of the Afghan War were two big items. To this was added the budget deficits of five years between 1921—26 owing to enlarged legislatures, increased secretariats etc., amounting in all to Rs. 100 crores. Capital expendi-

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1. Dutt, Economic History of India. Vol. ii.

ture for the Viceregal palace (New Delhi) amounted to over Rs. 8 crores. The unproductive debt was thus at Rs. 300 crores and the productive debt at Rs. 600 crores in 1925. The relative proportions to-day (March 1929) are 170·86 and 872·73 crores. About 15% of the revenues are paid for the extinction of debt every year.

**The Loan Policy and Debt Administration.** The Government of India have always found it cheaper and more convenient to borrow in England though exchange difficulties considerably added to the indirect money burdens of the loans. The poor incomes of the people and the absence of the investing habit and banking facilities are responsible for borrowing outside. A great change however came over in 1917—one of the by-products of the war. The stringency of money in England made it incumbent on the Government to tap Indian sources. War Bonds were issued at 6% compound interest, free of income tax, repayable at a fixed date. Considerable and unexpected sums flowed into the Treasury. The Post Office Cash Certificates introduced by Sir Basil Blackett was a marvel of success. If greater banking facilities are offered, "India will be able to spare increasing sums of money for the building of railways, canals and industries and for provincial development." Temporary and short-period borrowing, the sale of Treasury Bills or advances from the Imperial Bank of India, are however open to objections. The Secretary of State for India borrows from the Bank of England and issues Treasury Bills to adjust accounts in India. His sanction is necessary for all sterling loans raised in England. Rupee loans can be raised in India by the Government of India. The administration of the public debt in England is done by the Bank of England.

## CHAPTER XIII

### WAR FINANCE

" We have not yet learnt how to finance a war"—*Friedman*.

#### 1. EXPENDITURE

War expenditure may be divided into two categories, (1) Ordinary and (2) Extraordinary. Ordinary war expenditure is that which is incurred in the maintenance of standing armies, naval and air forces. This state of "preparedness" or readiness for war is justified by the fact that at any time war may have to be declared. To this must be added the cost of the national militia and other reserve forces.

War expenditure, like the other items of public expenditure, has been always on the increase owing to the growing complexity of international relations aggravated by economic distress. Further, new inventions such as machine guns, submarines and air-ships make the older methods antiquated and call for increased expenditure.

The extent of expenditure on this item is decided first by the needs of defence, and secondly by the urgency of the claims of other services. In most countries, the second is sacrificed to the first; expenditure on armaments is decided irrespective of the claims of other services such as education and economic development. Hence the desire of the great powers of the world to-day to effect world peace by disarmament on all sides. World peace is the only method of reducing war expenditure.



War expenditure does not promote direct economic development. On the other hand it is a source of diminishing the volume of production, first by the wastage of labour and capital in the production of commodities which do not satisfy human wants, (machine guns, poison gas and bayonets) and secondly, by the withdrawal of that labour and capital which would otherwise be engaged in actual productive activities. To this must be added the losses of life and property in the course of the war.

On the other hand it may be pointed out that but for normal or ordinary war expenditure national honour and security would be at stake. Sometimes during the course of the war, owing to the shortage of labour and capital many inventions are made which prove of immense value. These are no real gains, when they are set against the losses in other directions.

## 2. METHODS OF WAR LOANS

During normal times, the Government can borrow on easy terms moderate sums in the open market without much difficulty. But during the war, money is usually scarce, and interest rates will be ruling high, while Government demands are enormous and immediate. Hence exceptional efforts should be made to attract funds.

(1) The most obvious method, of course, is to offer very high rates of interest, despite the serious disadvantages attendant on it. For, during the period of repayment more money will have to be raised to pay off the higher interest charges. The credit of the borrowing country will be seriously doubted in the neutral countries. Sometimes the bonds are issued below par or

concessions in income-tax are granted to conceal the higher rate of interest.

(2) A very effective method to attract enormous sums is to make the war loans appeal to all classes of the citizens. War-Savings Certificates of very moderate sums, Short dated Exchequer Bonds, Six or Twelve Months' Treasury Bills, were issued in Great Britain, in addition to the usual long-term loans.

(3) To these methods is added the special appeal to patriotism. "This may take the form of propagandist advertisement through newspapers, public meetings, "tank-weeks," the stimulation of competitive endeavours among different towns to break one another's record of subscriptions and so on." (Pigou). Such appeals may have a remarkable effect in advanced countries, where money would have flowed into the Treasury in any case. But in a backward country, where patriotic feeling may not be high, such methods will have astounding effects.

(4) The above may be regarded as positive methods, but to them may be added the employment of some negative methods. If the Government block up certain channels into which private resources would flow, the funds could be made available for war loans. Thus in Great Britain (1) new investments were prohibited, (2) Government had the control over the purchase of raw materials and hence private persons could not buy as they pleased, (3) control over food also, (4) the Government took over capital goods such as plant, machinery etc. for war purposes, (5) control over railways and their transport services, (6) export of capital to foreign countries prohibited. By these means more money was made available for purposes of war. Some of them were

detrimental to the future interests of the nation, but they had to be sacrificed to meet the immediate needs of war-time finance.

(5) When all the above methods have been exhausted there remains many more of a very objectionable nature. The first of these is the raising of a forced loan. Politically, this may not be expedient because it might be met with opposition. Financially, the device of a forced loan is not quite sound. "Arithmetically, to raise from anybody a forced loan of £ 1000 at  $2\frac{1}{2}\%$  is the same thing as to raise from him taxes to the extent of £ 500 together with a voluntary loan of £ 500 at 5%" (Pigou).

(6) The second of the objectionable methods is to float a loan in the foreign market, with all its serious disadvantages of offering very high rates of interest and placing collateral security besides the necessity of punctual repayment without the possibility of conversion. Great Britain borrowed 500 million dollars in New York in 1915 at 5% and larger sums in 1917. Loans were also raised in the Dominions, Argentine, Uruguay, Chile, Spain, Switzerland, Holland and Sweden.

(7) The last method is to borrow by bank credits or by the issue of inconvertible paper.\* This policy is suicidal to the best interests of the country. High prices will continue to increase. The results on industry will be disastrous; industrialists would overproduce in the hope of large gains. Wages will lag

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\* Inflation has been called the modern Aladdin's Lamp! But its magical powers seem to be an empty dream. Germany worked her printing press so hard that in the end her paper became so worthless that it did not even pay to print it!

behind and strikes and disturbances will take place. Men with fixed incomes will suffer while debtors will be gaining at the expense of the creditors and so on. The ultimate discouragement to productive energy also will be very great.

### 3. EFFECTS OF BORROWINGS BY BANK CREDITS AND INFLATION.

We have noticed briefly already some of the effects of rising prices due to borrowings by bank credit on industries; but we are more interested in the effects on public finances. They are the following.

#### RISING PRICES AND FALLING PRICES.

(1) **Revenues.** "Where rising prices mean increasing money incomes.....there is some compensation to the Exchequer and the tax-payer. The same rates of tax will yield large revenue." (Robinson, p. 119). Conversely, falling prices would mean less revenues to the State and greater money burdens to the tax-payer.

(2) **Expenditure.** During the period of rising prices Government expenditure shows a great increase because goods and services have to be purchased at higher prices. But this is not true in the case of one class of public expenditure—fixed salaries to the officials. If any contract for goods and services for war purposes had been entered into before the eve of rising prices, then also expenditure will not show an increase. But since most of the war-time goods are bought in the open market after the declaration of war, prices rise and Government expenditure shows an increase. During the time of falling prices, Government expenditure on goods

shows a decrease but regarding contract and fixed salaries expenditure remains the same.

(3) **Borrowing.** "Borrowings in war time, especially when repeated loans are needed, is generally borrowing in an unfavourable market.....Apart from the interest rates the high prices mean that the loans necessary to meet any given expenditure were greater than they would have been had prices remained unchanged. Thus there is a double disadvantage in borrowing when prices are high. The real burden of such debts is thus very great." (Robinson, p. 120). The converse will hold good for loans contracted during falling prices; but since the need for loans disappear when prices begin to fall, the proposition is not of much practical utility.

(4) **Repayment.** Debts come to be repaid usually at the time of falling prices. Hence the burden of war debts which had been contracted at the time of rising prices increases enormously. Falling prices bring reduced money incomes to the Treasury; but the money amount to be paid to the creditors remains unchanged. Conversion of the debt may alleviate the burden to some extent. But in the case of a foreign debt, the burden cannot be escaped. An additional burden will be constituted if the debtor country has (as it does usually happen) a depreciating currency. "Germany is probably an extreme example of this.....Her reparation payments to the allied Governments are fixed in terms of old marks. In the summer of 1921 the gold mark was worth about 20 paper marks. By the end of the year its value was fluctuating between 45 and 65 paper marks. This meant that to meet the same payments in old

currency the German revenues would have to be nearly trebled in terms of their new currency." (Robinson, p. 122)-

#### 4. CAPITAL LEVY.

The repayment of internal war debts by means of sinking funds and conversion has already been discussed. But when the debt is very huge so as to swallow up a greater portion of current revenues, the ordinary methods are of little use. Hence some countries adopt the device of wiping off the debts either by repudiation or inflation of currency. Both the methods are open to grave objections and hence an extraordinary taxation called capital levy has been proposed.

Clearly, an ordinary increase in the rate of existing taxes cannot bring much relief, because, (1) already the rates are high enough. (2) Higher rates would check industry and enterprise. (3) Capital might be driven out of the country. (4) If prices continue to fall, the real burdens of recurring taxation would become heavier. Hence the case for an extra-ordinary taxation.

It is urged that if at one single effort the nation could subject itself to a special levy, the burden will be removed once and for all, and the future benefits arising from reduced taxation will be very large. Further, it is pointed out that the continuance of a debt reacts unfavourably on a nation's international trade and her credit. Hence the question is whether the advantages of an immediate repayment would be greater than those of spreading the same over a large number of years.

Annual ordinary taxation should be based on current incomes; but "a man's ability to contribute to one special levy depends on his total resources.....and total resources are probably practically best measured by

accumulated wealth." (Robinson, p. 152). A capital levy would, therefore, be an authorised tax to be paid by all capital owners at a percentage on all forms of capital. According to the Labour Party's scheme, capital below £5000 is to be exempted. The tax is to be graduated rising from 5% on capital valued at £10000 and going up to 60% on capitals over £1,000,000. Hence it has been called, not inappropriately, that the capital levy is an "anticipated death-levy." But serious objections have been raised against it from the following points of view.

#### 1. EFFECTS OF THE LEVY.

(1) That capital will be destroyed. This argument misses one important fact about internal debt. The repayment by a capital levy constitutes simply a transfer of capital from the levy-payers to the holders of war-bonds. Hence the claims are offset and the total stock of capital remains unchanged, for the capital which is paid out will again be re-invested. To this Prof. Shirras advances the following argument: "Traders use war-debt bonds to finance their business and if the war loan bonds were handed over to Government they would be deprived of these bonds. Bank deposits would be reduced, and it would be necessary for the banks to curtail their loans. The result of this severe deflation of credit is an equally rapid fall in prices with loss to industry and dislocation and probably unemployment." His theory is that though there may not be direct destruction of capital, capital will be destroyed indirectly because the basis of capital, credit, is destroyed.

(2) That enterprise, desire to work and save, will be destroyed. This argument is much less forcible than the previous one. If people realise that the repayment

of the debt would reduce their future tax burdens there would be greater willingness to work and ability to save. If they are afraid of further levies, the psychological effect will be adverse.

(3) That the present generation would be overburdened for the sake of posterity. This argument, too, is not valid. "If we repay our debt (by a special levy) now, we repay it to ourselves. If we leave it to 1942 or 2042 tax payers in those years will pay stock-holders in those years." [Robinson, p. 191.] Thus the present generation does not suffer any loss and they have no burden to shift off to posterity!

(4) That gradual repayment is more profitable because the national wealth increases and the taxable capacity becomes greater. "It has also been urged that to constitute a levy to pay off a debt at 5% when the returns in the industry are from 8 to 12% is hardly worth the candle." (Shirras, p. 546).

#### ii. EQUITY.

On grounds of equity, the advocates of capital levy urge that some radical distribution of property on a more equitable basis is necessary, and that current taxation would not bring about that desired result. Further, they say that young men gave up their lives in the war and it is not fair that the rich should be enjoying profits, from their investments in war—bonds which have risen in value as a result of the fall in general prices. The wealthy owe a moral duty to the State to relieve it from its debts. So on grounds of general equity not much is to be said against capital levy.

But between individuals and individuals capital levy would inflict unequal burdens. A few examples



may be given. (1) If accumulated wealth is taxed, we make a differentiation in favour of those who have spent their wealth. (2) Some properties which have been already mortgaged would have to bear proportionately heavier burdens against those which have none. Some concessions would have to be made for such cases. (3) At the time of the levy we cannot take account of future losses or gains and make deductions for them. Thus, of two men subjected to a levy, one might marry ten years hence and leave a large family penniless, whereas the other remaining a bachelor would have saved much. (4) In the case of professional men (lawyers, doctors, etc.) the Government would have to rely on a series of heavy annual payments; a lump-sum levy would be grossly unfair.

### iii. PRACTICABILITY.

Lastly, we come to the question of practicability. There are many insuperable difficulties such as accurate valuations which could not be done without irritation and heavy expenses. Serious evasions might take place. If the banks cause a panic by refusing to accommodate the levy-payers, the scheme will fall through. And further the estimated yield is very small. Dalton reckons it at £ 70 millions; and Stamp at £ 50 millions. After all, the alleged burden of £ 6000 millions of war debt is not really heavy; for at the close of the Napoleonic War, the proportion of wealth to debt was 32; whereas to-day it is 34. Hence as the majority report of the Colwyn Committee observes, it will be like "burning the house to roast the pig." But the minority opinion is on the following terms—"that the best moment for the levy would have been during the price-boom which followed

the end of the war and had a levy been imposed then, the inflated values and inflated money incomes would have involved a smaller percentage of the total income, the disturbance would have been less, the psychological effect in the midst of the boom would have been less serious while we should have been spared the additional handicap of the heavy debt taxation when the boom and the rising prices were followed by falling prices and depression." (Robinson). Some small countries such as Poland, Czecho-Slavokia, tried the method with some success. In those countries the amount needed was small and their international trade relations negligible.

## 5. SETTLEMENT OF INTERNATIONAL DEBTS

### i. SHOULD THE DEBTS BE REPAID?

Inter-allied War-debts are not to be treated as commercial debts for several reasons. The loans were made either because of national sympathy or for a common purpose. Since America entered the war late, she could make only money contributions, whereas France, Belgium and Italy made immense human contributions (fighting forces) and hence it is not fair that America should require the whole debt to be repaid. This is the view point of debtor countries.

But America takes up a different attitude. The statesmen and officials of that country declare (1) that the loans were made at the urgent request of the borrowers under their solemn assurances of punctual repayment and repudiation would shatter international good faith; (2) the Americans did not participate in reparations and acquired no territory, whereas France gained a total territory of 402, 392 sq. miles inhabited by about 4 million people. Similary the other countries were also

gainers. Hence there is a financial reason to repay the debts. (3) When France helped America in their War of Independence the loans which France had advanced had been repaid in full.

To these arguments, the Allies reply in the following manner. (1) It is true that the Allies gave their solemn assurances of repayment just in the same way every borrower avers his intention to repay. But the situation was an urgent and critical one. "If the allies had asked for gifts or contributions instead of loans they would have been given the funds just as readily." (Seligman). If the U. S. A. had entered the war much earlier, she would have suffered enormous losses. Since a great portion of the loans were made in the shape of goods and services *during the war*, America cannot morally claim repayment. (2) Regarding reparations Prof. Seligman points out: "We received no ships to ruin our shipping trade as was the case in Great Britain; we received no colonies which would have been burdens rather than assets; but we heaped up wealth, while all other countries lost it." Before the war, America was the largest debtor country, but when all Europe was plunged in devastation and poverty, America amassed incalculable sums, and hence her gains were the greatest. (3) If America would say she repaid all French debts in an earlier period, England can advance an argument that she remitted all the debts of all her allies in the Napoleonic war. The whole question is one of co-operation and equity and not one of commercial justice.

But the problem is still more complicated because when America insisted on repayment, Great Britain agreed to discharge all her debts to the U. S. Treasury to the last penny, provided her debtors (England's) also would follow her example. This is the famous Balfour

Note of 1921. Great Britain owes to America about £ 2000 millions while her debts due from France, Russia and Italy amount to over £ 1000 millions. Now France and Italy would not pay anything until Germany pays all her war indemnities. "Thus the Great War has left the world in a state of indebtedness which is unparalleled both as regards the absolute size of the Government obligations and the extraordinary complexity of the international arrangements." (Robinson, p. 136)

#### ii. CAN EUROPE PAY?

If the claims of U.S.A. and of Great Britain are admitted, the question arises, whether Europe can afford to pay. America thinks that France is a rich country and that during the past few years she has made large loans to foreign Governments and hence her ability to pay is unquestionable. But the truth seems to be different. The tax burdens in all countries are very great and further taxation will clearly ruin them. They have no spare gold. And inflation is the worst method that they can resort to.

Hence of the three possible methods of repayment: (1) Taxation, (2) Inflation, (3) Payment by services and goods—the last seems to be the only practical method.

#### iii. CAN AMERICA AFFORD TO BE PAID?\*

If the allies have the ability to pay, the question is asked whether America can afford to be paid. If the

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\*The paradox of this problem is to be explained this way. The national economy of each country in the world to-day is based on competition, division of labour, production in anticipation of demand, in other words, an "export surplus." If such enormous payments were to be received in a country like India, the benefits of inflation of prices at home would bring her greater returns for her export of raw produce. But an industrialised country cannot afford to receive such payments lest her exports should be destroyed.

debtor countries were to pay, it must be by exporting raw materials such as rubber, tin, silk or coffee; in which case American exports to that extent will be curtailed. If they are manufactured goods, America does not want them for her industries will be ruined.

Currency depreciation would make matters still worse. If it cost £1 to make a commodity in Germany its real value in terms of her depreciated Mark will be, say, only 18 shillings. Hence she will be able to undersell British manufacturers both in British and in her foreign markets. We might argue that this price disparity will disappear soon and the international equilibrium of prices reached. But the inflation at home and the large payments abroad would keep down the value of Marks. That is, internal prices will be always low in Germany.

The result will be disastrous to the creditor countries. In the first place, they cannot hope to have large export trade with the debtor countries. Consequently there will be trade depression and unemployment. The large exports from the debtor country into the markets of the creditor countries would also have a similar effect. The consumers of the creditor countries might get some benefit from the lower prices of the exports from the debtor countries. But if they wanted to prohibit the imports by protecting duties it would deprive the debtor countries of the only means of payment. Thus this method spells ruin to the creditor countries. Seligman puts the problem in these words: "In business life, the best way to deal with a bankrupt is to set him on his feet again.....In public business and finance.....we must either convert these bankrupt nations into good custo-

mers or have no customers at all. By saving them we save ourselves." (P. 57—Studies.)

In normal conditions no such friction or economic disadvantages happen to either the paying or the receiving country. For the payments will be small and adjustments would be easy; moreover the debts would have been contracted for productive purposes and the payment would continue for a long period. In the long run, therefore, both countries will be benefitted. But in the repayment of huge war debts, the payments would cause great initial friction. If the paying country is reduced to poverty by the payments, it is a loss to the receiving countries also.

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## CHAPTER XIV

### LOCAL AND PROVINCIAL FINANCE

#### 1. CHARACTERISTICS OF LOCAL FINANCE

Local and Central Governments are simply different forms of the State organisation and clearly show their fundamental resemblances in their financial systems. In expenditure, taxation, administration and the general influence of finances, there are not many differences between the Central and the Local Governments. But notwithstanding, there are certain peculiarities in the methods of local finance, that make it desirable to study them separately.

(1) The most obvious difference is in the magnitude of the finances of each. The proportion of Local to Central finances is very small in all countries.

(2) The absence of uniformity is another marked characteristic of local finances, for the simple reason that the units and functions vary. A rural commune has slender resources and a crude financial organisation. A great municipality has vast resources and undertakes expenditure on a large scale. A backward district will be in a different position with regard to finances as compared with a rich district and so on.

(3) The lack of uniformity is all the more great in the case of the different countries, owing to their historical, political and geographical peculiarities. Poor relief is a local problem in England, because it had been so from the time of Elizabeth. So is education, which is completely centralised in Ireland. Local finance

occupies a very insignificant position in France since the Government has been highly centralised from the days of Louis XIV. The geographical peculiarities and the local patriotism of the people of Switzerland have on the other hand, made local finance of great importance.

(4) It may also be pointed out that the position of the local bodies in regard to finances is very different from that of the central government. It is true that their finances are separate and independent; but their powers are merely delegated ones. The local authorities require the sanction of the Central Government for raising taxes or incurring expenditure or debts. The general policy is laid down by the Central Government.

(5) One more characteristic of local finance may be pointed out. There is a large element of "payment for benefits" in local finance. Water-rates are payments for services rather than taxes in the strict sense of the term. Hence such rates have been called "beneficial" as distinguished from "onerous" rates, for which no direct benefit can be traced. Examples of the latter are education, rates etc. The English Royal Commission on Local Taxation, 1901, defined the position thus: A service may be called properly local when a preponderant share of the *benefit* can be directly traced to persons interested in the locality. On the other hand universality and uniformity of administration is generally a mark of national service and such administration *does not confer special benefit* on special places."

The above considerations make Local Finance largely a matter of administrative detail and not of a wide problem of policy. It does not admit, therefore, of



general principles. And hence local Finance is of very limited theoretical importance.

## 2. SEPARATION OF LOCAL FROM STATE FINANCES.

(1) Financial separation, is a necessary corollary of separation of function between the Central and the Local Governments. The same reason that underlies the separation of functions underlies the separation finances too: to wit, efficiency, adaptability and flexibility. If responsibility of administering certain services is thrown on the local bodies, they must also be given powers of taxation to meet the necessary expenditure. Unless the local authorities are given the powers to tax, their local patriotism will not be aroused. If local autonomy is to mean anything real, the local authorities should not depend upon the State doles. There is thus a strong political reason for the separation of finances.

(2) Apart from political reasons, there are many fiscal arguments in favour of separation of local finances. In the first place, the growth of cities has created the need for collective expenditure on many important services such as education, sanitation etc. *The fiscal needs have multiplied* and the old fiscal machinery of the Central Government is unable to cope with those increased activities. Secondly, we have to raise taxes to meet this increased expenditure *from a variety of sources*, such as property. The Central authorities do not possess the advantage of local knowledge to administer these taxes. Further, it will entail heavy costs. The local authorities can do it effectively and cheaply. Thus for the administration of these taxes separation is essential. As

Seligman puts it: "The wealth is there, the resources are there; but the method of tapping the sources is made effective by a separation of finances." Thirdly, local conditions vary from place to place. A town on the banks of a river may not require water-works; but water supply is the most important problem in some towns. If the Central Government is in charge of these services and central funds used for these purposes, we shall be doing injustice to the general tax-payer. Some districts may be highly advanced, while the others are backward. A uniform treatment would, therefore, be inequitable. "The conditions of a commercial metropolis are very different from those of a country hamlet, and what may be entirely appropriate in the second case may be found to be completely unfavourable in the first. The slow steed and the fleet racer work very ill together in harness.....If we allow the different localities to experiment within certain broad lines.....the result is ultimately found to be an adaptation of fiscal practice to economic fact."—(*Seligman.*)

### 3. SERVICES OF LOCAL AUTHORITIES.

There is no uniformity in the functions of Local Governments. "They vary from country to country with geographical conditions, historical associations and political traditions and vary from period to period in the same country as conditions alter and as the efficiency of the local authorities changes." (Robinson). Yet in spite of the diversities of practice we can discern certain general tendencies. There are certain services which are clearly local (water-supply). Some are national and local (roads and police). Some are of national

importance and yet capable of more efficient local administration (public health, elementary education\*).

The above functions are common to all countries. But in England the local authorities administer poor-relief and look after agriculture and rural industries. In Prussia the local bodies administer State insurance scheme against ill-health, old age and disability. In Japan the local authorities act as agents for the collection of some Central taxes.

No useful classification of all these services can be made; but they may be divided broadly into two groups :  
(1) Local services : "those which are carried out and controlled almost entirely by local authorities in the interests of their respective localities and are not, to any marked extent, for the benefit of the nation as a whole.  
(2) Semi-national services, *i.e.*, those which are administered by local authorities but in which the State has at the same time so marked an interest in their efficiency as to justify a claim to the supervision of their administration." (T. E. C. Report). Services such as defence, and law are common, national and indivisible.

From the point of view of administration Local Finance bristles with many difficulties. On the one hand we have to allow individual initiative and freedom, but on the other we have to control and supervise their services in the interests of co-ordination and efficiency. Hence all financial legislation and audit and control is vested in the Central Government. Taxes or loans cannot be raised without prior sanction. But in matters of detail and

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\* "Services which were originally parochial may become provincial and then national. This dynamic conception is essential" Grice—National and Local Finance, p. 3.

management the local bodies are given a free hand and are unhampered from bureaucratic control.

#### 4. LOCAL TAXATION.

In the evolution of modern taxation, one interesting fact is observable, and that is the absorption of all productive taxes in the hands of the Central Government. Customs were once levied by all towns. So were taxes on income. Now both of them are Central sources. Hence at the present time local authorities are left with a few resources, which are entirely local in character. They are mainly the following.

(1) *Property or Real Estate.* House, business premises, factories etc., are taxed. In England the tax is levied on the annual value of such properties. In Germany the tax is based on their market or sale value. In Prussia a Property Transfer Tax on the value of real estate changing hands by sale or otherwise is levied and is very popular. In most countries agricultural land also is subject to local taxation; but in India land tax is Provincial, and only a small cess is levied for local purposes.

(2) *Trade and Professions.* Traders and Professionals of all grades are taxed, the tax varying according to the variations of income. Small traders and the working classes are exempted. In Prussia traders and manufacturers are divided into four classes according to the size of their undertakings; the capital employed and gross profits earned are either ascertained or estimated arbitrarily and are taxed accordingly.

(3) In addition to the taxes on trade, particular trades and occupations which are considered as dangerous or offensive pay special taxes in the form of license fees. They include restaurants, retailing of beers and spirits, manufacture of fire-works, storing of timber,

fuel, grain, chillies etc. Besides these there are many license fees such as licenses for vehicles, dogs and other animals. Market-tolls also may be placed under this head.

(4) *Taxes on communications.* These are called octrois and terminal taxes. British and American writers look on such duties as expensive to collect, easy to evade and a hindrance to trade. It is due to the fact that their incidence is shifted, and that it is difficult to determine on which classes the burden ultimately falls. A well-devised tax on vehicles will do away with the evils of this system of indirect taxation.

(5) *Taxation of site values.* Site values increase rapidly in large cities and towns owing largely to local improvements. Hence it is fair that the local authorities should receive a share in it. The tax will not affect the supply of land; it does not check improvements; and being a differential tax, it cannot be shifted. For these reasons, a tax on site values is a pre-eminently fit subject of taxation. The tax was first introduced in Germany in 1904, and has spread to all countries. In India, under the Town-Planning Act, the Municipalities are empowered to recover from the owner of the property a tax to the maximum of 50% of the increased value of the site. The tax would therefore check speculation in land values and assist thereby the housing problem. Besides the tax is paid by the seller only on resale or transfer and is graduated. The tax has become so productive in Germany that the State and the Imperial Government are taking a share.

(6) *An addition to the Central income tax.* In France Belgium and Germany a large proportion of Local

revenues is obtained in this way. An income tax is unsuitable to local authorities for many reasons. Local authorities have no efficient machinery for detecting concealed income or trace it to its sources. Income is not localised, for it may arise from any part of the country, and if all local authorities tax it, it will be taxation of the same income several times over. In spite of all these difficulties, Germany has successfully adopted the system of levying an addition to the State income taxes. It is very popular and productive.

(7) *Non-Tax Revenue*, is also very considerable, in many Local Governments. It may arise from public buildings, public land or forests belonging to the local authorities. "Klingenberg in Bavaria, owing to its forests and valuable clay pits, yields to its 2000 inhabitants, after meeting all public expenditure in the commune and adding to a reserve fund, an annual dividend in cash." (Shirras). Another source of non-tax receipts is the income from public utilities such as gas, water, and electricity supply. German cities make enormous sums in this way. An objection may be raised to this form of taxation, because as a rule, only cost prices should be charged for such services. If more than cost price is charged, the burden will fall on those who patronize the services, especially the wage-earners and the lower classes. For example, a tax on tramways does not fall on the richer classes who own motor cars.

##### 5. GRANTS-IN-AID OR SUBSIDIES.

In addition to the tax and non-tax receipts, the Local authorities are in receipt of large subsidies or grants from the Central Government. They are no doles. There are two main reasons for these grants. (1) The Local

authorities perform many services, which are national in scope, and if the payments for such services were to be made by the citizens of particular localities irrespective of their ability, the burdens will be unequal. National services must be financed from national taxes. (2) A progressive system of grants is also necessary to equalize the finances of the richer and the poorer districts; otherwise the poor districts will be unable to perform many of the services they are called upon to do. The country as a whole cannot allow a particular locality to become a breeding place of disease or a refuge of criminals, owing to lack of finances for sanitary and police services. The system of grants has thus a double advantage of equalising the burdens of different districts and enabling the Central Government to put effective pressure on the local authorities to maintain a certain standard of efficiency in those services.

The great dangers of grants are that they destroy local initiative and are demoralising to some extent. If the grants are distributed on the basis of expenditure, it encourages extravagance. Hence distribution of grants must guard against these two dangers and should be based on a combination of different principles.

A salutary principle is to allot fixed or "block" grants, the local authorities being obliged to meet the rest of the expenditure from their own taxes. However, this would not be of great assistance to the poor districts. Hence the "necessitous-area-grants". "The grants should be distributed in such a way that most would be given to those districts which have the lowest ability and where expenditure is necessarily high and less to those with the greatest ability and less necessity for expenditure." This was adumbrated by the Chairman

of the Royal Commission on Local Taxation in England. (1901). The German system is less complicated and aims at a rough justice; for, grants are distributed half according to population and half according to area.

The commonest method of distributing grants was the "percentage" system. In Great Britain it has been applied to education, public health, communications and similar services and the advantage claimed is that it provides a stimulus to local authorities to improve the efficiency of their services. But on the other hand the Geddes Committee has pointed out its numerous defects. 1. It encourages extravagance because there is no incentive to practise economy and as such the general tax-payer is penalised. 2. The Central Government is in great difficulties in framing estimates, for these are based on anticipations, not of what the Government will do, but of what hundreds of local authorities may do. 3. There is divided responsibility in the administration of the services leading to weakness and inefficiency. It may, however, be pointed out that this plan is easy of administration and is (if proper standards are fixed regarding the efficiency of the services and if proper control and supervision are exercised) capable of great improvement.

#### 6. PROVINCIAL FINANCE.

In all Federal Governments, there is the State or the Province as an intermediary between the Central and the Local authorities. Though this unit of Government is only an enlarged local unit, it stands on a different footing in public law. It is not a mere creation of the Central Government which can be dissolved or reshaped at will, The constituent parts have a distinct



existence and the limits of the jurisdictions of the two authorities are clearly defined and fixed, which form the basis of the constitutional structure of the whole Federal Organisation,

But in the matter of finances, there is hardly any difference between the Provincial and the Local authorities. There is the same need and the same device for the separation of the sources of income, the same principles underly the methods of taxation and the same measure of control and supervision by the Central Government. Only the scope of the problems is wider.

#### i. SEPARATION OF SOURCES.

This might be based on the following principles : (a) The separation of functions indicates roughly the way in which finances could be separated. The Central Government is usually in charge of defence and foreign relations, coinage, inter-state trade and commerce, postal services, banking and general legislation. Hence the profits arising out of these services and customs revenue should go to the Central Government. The State Governments manage public works, roads and canals. Hence taxes and receipts from these sources should go to the State Governments.

(b) Allocation of taxes according to their spheres. It is in this direction that much conflict is bound to arise because both the Governments require large resources to carry on their activities. In U.S.A., the *income tax* was formerly a State tax but is now made a Federal tax because economic changes have broken down States—lines and have made incomes national and even international. Similarly, the *corporation tax*, because the shareholders

of a corporation and the consumers of the products of the corporation are distributed nearly throughout the country. The centralisation of such taxes is also necessary in the interests of efficiency, economy and equity. *Death-duties* present many difficulties. Since the tax falls on property it is considered as a suitable subject for State taxation; but the property can easily be shifted and the tax evaded. Hence the case for making it a federal tax. In some countries it is a Federal tax, in some a State tax and sometimes it is both. "The best opinion advocates uniform administration and the division of the proceeds with reference to considerations of domicile and situation of the property." (T. E. C. Report). "The *land revenue* tends to become standardised and any new changes on the land itself are in the shape of Local taxation, while the State or the Imperial Government or both, tax the income of the former through income or capital taxes." (T. E. C. Report). Taxes on transactions, stamp-duties, excise duties and fees of all kinds are Provincial resources.

## ii. MEANS OF ADJUSTING DEFICITS.

The separation of resources fails in actual practice to leave either the State or the Federal Government in a position of financial independence. Either the federal or the State Government has to face deficits when the revenues prove insufficient. And adjustment could be effected in one of the following three ways or by a combination of them.

(a) **Subsidies or grants from the Central Government.** The practical difficulty is to determine the *basis* for the distribution of grants, avoiding at the same time the dangers of encouraging extravagance and destroying

initiative. The principle adopted in local finance seems to be the best, namely grants in proportion to the revenue resources and the expenses of the Provinces.

(b) **Contributions or grants from the Provinces to the Central Government.** As Seligman points out, "To have the Federal Government depend entirely upon largesses is to render it more or less impotent and certainly to make it subordinate to the State." Further more to arrive at a satisfactory *basis* for the contribution is the most difficult problem. If it is on the basis of the *taxable capacity* of the provinces, the province which contributes most thinks herself to be the "milch cow" and provincial jealousies break out. *Expenditure* cannot be the basis; for every province will try to enlarge its expenditures and show a deficit rather than surplus. Neither *population* nor *area* can be taken as a suitable basis, since revenue and expenditure are not dependent merely on those factors. If a combination of all these bases is applied, the scheme will be very complicated and incapable of exact determination and administration. Hence Provincial contribution is more objectionable than Central grants. "To make the separate States depend financially upon the Federal Government is not in the best interests of complete equilibrium." (*Seligman*).

(c) **Division of yield.** This may be effected in a variety of ways of which three are important. (1) Arbitrary division or "divided heads". "It has the defects of a subsidy with others added. The subsidy fails, if the particular source dries up. The divided authority and interests is an infringement of autonomy and makes for bad administration." (T. E. C. Report). (2) Both

Governments taxing the same source either separately or through the same agency; e. g. a Federal and a State income tax. The disadvantage lies in double taxation but inequities can be removed by efficient administration.

Another method of avoiding double taxation under this plan is to collect the tax centrally and allot a basic rate to the State or Province concerned. (3) The tax itself may be divided according to its spheres. An excise duty on one class of intoxicants (foreign liquors) may go to the Central Government while duties on another class (country liquors) may go to the provinces. Stamps are also similarly divided—judicial stamps to the provinces and the non-judicial to the Central Government. This is the arrangement in India.

#### EXERCISES.

(1) "Local finance is largely an administrative problem." Explain

(2) Is separation of sources of taxation essential between (1) the provinces and the local bodies and (2) between a province and Federal Government?

(3) What are the bases of local taxation? Do you consider it an injustice to rely upon one form of property (= real estate) for local taxation.

(4) Do you advocate a general property tax for local purposes?

(5) What are the difficulties of local additions to income taxes as a source of revenue?

(6) Mr. Goschen held that the most important problem in local finance was the determination of the incidence of the rates. Why?

(7) Grants to local bodies are justifiable, but not grants from a Federal Government to the provinces. Do you agree?

(8) What general principles do you lay down for grants from a Central Government to the provinces and to the Local bodies.

(9) Determine the basis for the separation of Provincial and Central finances.

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## CHAPTER XV

### FINANCIAL ADMINISTRATION

“Accountancy is the essence of government.”—*Colbert*,

Financial administration is as important as any other part of the science of finance. For what is the benefit of a good revenue or expenditure system, if both cannot be brought under popular control and efficient audit? The Treasury Department has therefore been rightly described as the power house of the great factory of finance. The secret of the very working and the efficiency of a financial system lies in a strong and popular administration. The study is of great importance though the subject strictly belongs to the art of politics.

#### THE BUDGET\*

“The budget is undoubtedly the pivot of the administration”. For it helps the Government needs to be foreseen, avoids the possibility of ill-considered expansion of expenditures and is a restraint on the irresponsibility of public officials. In short it may be called a ship in the vast ocean of finance and the Finance Minister is really her captain. The immense advantages of this National Balance Sheet can be understood by a glimpse into the procedure of the budget in all its various stages in a fully democratic country like England. The budget contains a review of the results of the previous years and a forecast of the revenues and

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\*The word originally meant the case or the despatch box of the Chancellor of the Exchequer where he kept his papers.—*Shirras*.

expenditures of the coming year. Hence Willoughby calls it "at once a report, an estimate and a proposal". The budget should be a full and self-contained document leaving no room for supplementary grants or extraordinary demands. And finally the representatives of the people should exercise their utmost control over the legislation of the budget.

#### THE FINANCE MINISTER.

Though the budget is the instrument of popular control over finance, it is really the Finance Department or rather its presiding deity that really shapes the national policy. The whole direction and initiation, and control over the other departments lies in his hands. He is a veritable lion. "He has to bring to the task of public finance a mind keen and alert, an intelligence trained in the best of schools, a natural capacity for business, a genuine and practical sympathy with various communities, especially the mercantile community and a keen desire to be up and doing. He must be as Lord Morley would have said, "a paragon" (Shirras). But Peels and Gladstones are only rarities! The majority, of Finance Ministers, as a shrewd critic said of Mr. Churchill, have "no head for finance, no gift for figures and no interest in facts except when they serve a rhetorical turn" <sup>2</sup>. The party system makes their tenure precarious; and anxious to alarm the Opposition or the public as little as possible they take a short view of finance and are satisfied with patchworks year by year. But a permanent and irremovable Finance Minister is inconceivable in a democracy. The real

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<sup>2</sup> Hirst.—Public Economy and Taxation. P. 42.

guardians of the public purse should be the people themselves.

#### AUDIT.

Apart from the popular control exercised over the budget by the legislatures and the administrative control exercised by the heads of the Department, the Treasury and the Finance Minister, the control over the accounts is vested in the hands of an independent administration called the Audit Department. It verifies and examines the accounts both before and after the expenditure is disbursed. It checks receipts and vouchers, detects frauds or technical errors and presents two reports to the legislature, the audit report showing the detection of errors or frauds and the appropriation report showing the result of disbursements. The audit is thus the keystone of popular control in technical matters just as the legislation of the budget is in matters of policy. Under the guidance of Parliament and under the check of these technical experts, the Chancellor of the Exchequer has to steer the ship of the nation's finance.

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## ADMINISTRATION OF FINANCES IN INDIA.

The Financial machinery is located at three different centres.

**The India Office** looks after ways and means operations in relation to British Parliament, transacts exchange operations and manages the gold standard and currency reserves. There is a special Finance Department in the India Office with two Financial Secretaries, in addition to an Accountant General. There is also a Finance Committee.

**The Government of India.** The Finance Member in charge of the Finance Department is under the final authority of the Governor-General in Council.\* There are two branches, Civil and Military. In a matter of disagreement between the Finance Member and the Council, the Secretary of State gives the final decision. Directly under the authority of the Finance Member are his Secretary, and the Controller of Currency. The Imperial Bank of India is the Banker for the Government of India, its branches and its district treasuries being the provincial and local units.

**The Provinces.** The Financial department is under the Reserved half of the Dyarchic constitution † The

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\* Though the Finance Minister corresponds theoretically to the British Chancellor of the Exchequer, he is a much inferior dignitary in actual practice. He cannot dictate to the various heads of Departments. The military accounts are not under his control nor are those of the railways.

† "It was required to watch and advise on the financial provisions.....but in no sense to be overriding. The Governor in Council was to have the final say." Muddiman Committee Report P. 90.

member in charge is assisted by a Secretary and the Accountant General. The Finance Committee and the Public Accounts Committee exercise some control in the shaping of the proposals.

Under the Reforms the borrowing powers of the provinces are limited to meet capital expenditure for works, to famine relief and to repayment or consolidation of loans already raised. The loans have to be sanctioned by the Central Government or the Secretary of State. Interest is the first charge on the Provincial revenues, next to the contributions.

The provinces are given the powers of imposing new taxes for provincial or local purposes on (1) land other than agricultural, (2) on acquisition of survivorship in a joint family or on succession, (3) betting and gambling, (4) on advertisements and amusements, (5) on luxury, (6) direct consumption taxes such as taxes on buildings, vehicles, private markets etc.

The cash balance of the provinces should be kept with the Government of India for which an interest will be paid. In cases of emergencies the Central Government has the right of not allowing a certain minimum to be withdrawn.

In the loan account of the provinces interest is the first charge on the revenues. The principal has to be paid off within twelve years. The provinces are required to set apart each year a certain amount as Famine Insurance Grant, which they can draw upon in times of famine.

## 2. THE BUDGET.

The first stage is the "preparation". The departments begin their work in October. The estimates are

scrutinised by the heads of the departments, the Accountant General and lastly, by the Finance Department and the Finance Committee of the Legislature. The Accountant General issues the first edition of the budget which is then revised by the whole Government. The revised budget then forms the second edition of the budget and is submitted to the Finance Member.

The second stage is the "legislation" of the budget. The speech of the Finance Member is followed by a general discussion and voting of grants. "Supplementary" and "regularisation" grants are sanctioned by the legislature at any session. "Token grant" is moved if the Executive has reappropriated from another grant. The legislature has power to move "cuts" or "throw out" the budget but the Governor-General-in-Council has powers to restore the cuts and certify them. The Finance Bill is then passed by both Houses and it expires at the end of the year. If the Bill is not passed, a joint sitting of the two Houses or negotiations may be resorted to but since it can be done only after the lapse of six months the Viceroy uses his powers of certification. The Salt Tax both in 1923-1924 and in 1924-25 was certified.

The third stage is the "execution" of the budget. Every expenditure has to be sanctioned, and an authority of the appropriation issued by the Accountant-General. The accounts are finally audited by the Public Accounts Committee and the Auditor General. A very unpleasant arrangement is that the Finance Member is the Chairman of the Public Accounts Committee, whereas in England the Leader of the Opposition takes that place.

## 3. POPULAR CONTROL UNDER THE REFORMS.

**Historical:**

- 1860. First budget presented by Sir James Wilson.
- 1861. The Imperial Council had an opportunity of 'formally' discussing the budget.
- 1892. The Indian Councils Act gave an opportunity of discussing the budget.
- 1902. Power of discussing, moving resolutions and divisions over certain items of expenditure and revenue was recognised.

Popular control was nil till the Reforms of 1921.

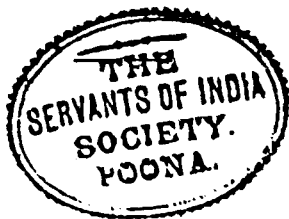
**Central Government.** Sir Malcolm Hailey, in introducing the first budget declared "if we incur expenditure it will be under their mandate, if we impose taxation it will be by their vote." A wild camouflage! Because half the items are non-votable, certification over taxation as well as expenditure by the Viceroy is allowed; the Council of State has always voted with the Government. These are the three great limitations of the Legislature over budget control.

**Provincial Government.** The votable items constitute the major portion of the budget but even over the transferred subjects the vote becomes ineffective owing to the power of certification. The power of the Ministers is very limited. The Governor-in-Council has the final say over proposals of new taxation and the allocation of the revenues over the various items of expenditure.

On the whole, we are not far wrong if we conclude that the power of the legislature is more of scrutiny of expenditure and revenue rather than exercising control over the national policy. The Executive is independent

of the Legislature and without Ministerial responsibility democratic control is a mirage. The Councils have the power of persuasion and not of decision. The Secretary of State and through him the British Parliament is still the ultimate sovereign in Indian Finance. Parliament has the right to discuss a Bill thrown out by the Assembly unless it has been certified by the Viceroy. The Secretary of State is the custodian of Indian Finances but the control is being relaxed by certain conventions such as refusal to interfere in a case where the Assembly and the Government of India are in agreement.

In addition to the absence of complete popular control, the Indian system differs from the English system in many other respects. (1) In India the Railway budget is separate. (2) There is no counterpart to the Ways and Means Committee or the Committee of Supply of the House of Commons. (3) In England the Finance Bill and the budget are presented in a single form as the Appropriation Bill. In India both are separate. (4) The power of the Council of State over Money Bills is unlike that of the House of Lords.



## APPENDIX

### TO CHAPTERS 1, 14 & 15.

*For a short historical account of the financial system of India, see India in 1927-28.*

#### REVISION OF THE MESTON SETTLEMENT.

The chief defects of the financial arrangements arising out of the Meston settlement are the following.

(1) The Central Government is left with expanding sources of revenue (Customs and Income Tax) while its expenditure is expected to be either stationary or falling.

(2) The position of the provinces is exactly the reverse:—expanding services and inelastic or falling revenues. The enormous needs of the nation-building departments are to be contrasted with the falling items such as Land Revenue and Excise on Liquors.

(3) The different provinces are unsuitable fiscal units and the Meston settlement has created much friction and dissatisfaction. Bengal with Permanent Settlement cannot raise much land revenue. An industrial province like Bombay also suffers on that score. Bihar and Orissa is a new province with enormous needs for nation-building services. There is not the scope even for a uniform economic development.

(4) The Provinces are obliged to find new sources of taxation which however do not for administrative considerations, fall within their scope. In other words,

there is no harmony between the distribution of functions and the allocation of the sources of revenue between the provincial and the Central Governments.

**The Taxation Committee** recommended the division of the Income Tax between the Provinces and the Centre on the principle of origin. Thus the provinces would get a share of taxes *on personal incomes from all sources including dividends from companies wherever situated*. The Central Government would get the whole of the taxes on foreign investments or of residents abroad, and the whole of the super-tax.

They recommended some new sources of provincial revenues: tobacco, aerated waters, patent medicines etc., and also death duties.

They wanted commercial stamps to be transferred to the Central Government.

**The Indian Economic Association** in their Annual Conference in December 1929 have put forward many suggestions. There are two distinct proposals, one made by the Bombay group and the other by Prof. P. J. Thomas. The former would transfer *the whole of the Income Tax to the provinces and the excise on country liquors to the central government* so as to restore financial equilibrium. Some minor proposals of importance are (1) Corporation Tax for the Central Government and Succession Duties for the Provinces. (2) The Centre might invade the domain of the Provinces in times of emergency.

Prof. Thomas has criticised these proposals in his very able paper. It is worth a close study because he has anticipated the recommendations of Mr. Layton, the Financial Assessor to the Simon Commission. He

emphasises rightly that the problem is not merely one of the apportionment of the existing revenues but also the imposition of new taxes to meet the growing needs of the provinces and the Central Government. "The one need not look for gaining at the expense of the other. There must be found means for additional taxation in order to increase the resources of both." (I. J. E. Jan. 1930, p. 516.) He recommends the division of the income tax and making it a "balancing factor." The basis of the division is to be "according to needs" and not on the basis of origin or domicile. The suggestion for the creation of a national fund "fed from central taxes but utilised for supplementing provincial revenues or more particularly for financing those provincial ventures which are essential for national development" is the same as the recommendation of Mr. Layton.

#### THE RECOMMENDATIONS OF MR. LAYTON.

The report of this distinguished economist forming ch. viii of vol. 2 of the recommendations of the Simon Commission is certainly scholarly. Unfortunately, it is vitiated by the narrow outlook on constitutional advance as envisaged by the Commissioners. Hence the utmost reduction advocated in the army budget is Rs. 7 crores. No prospect of retrenchment in civil administration, (which, he admits to be "expensive owing to the level of salaries in the upper grades of the Indian services") is anticipated because Indianisation is still a distant ideal. Within these limitations, he has recommended several changes in the financial system which fall into two distinct groups:—reallocation of the existing revenues between the Centre and the Provinces and the imposition of fresh taxes to be collected centrally



but distributed to the Provinces by the establishment of a Provincial Fund.

#### REALLOCATION OF EXISTING REVENUES.

**Foreign Liquor:** The Central Government should reduce the present rate and bring it down to 30%: the provinces should impose an excise equivalent to the balance of the duties now collected. This would give the provinces about  $1\frac{1}{2}$  crores.

**Commercial Stamps** to be transferred to the Central Government for the sake of a uniform rate and facilitating administration. The provinces would thus lose  $1\frac{1}{2}$  crores, which is made good by their gains from foreign liquor.

**Income tax.** The provinces to get 50% of the proceeds—realising about  $4\frac{1}{2}$  crores now and about 6 crores at the end of the decade.

**Salt** should be transferred to the provinces and the revenue should be distributed on the basis of population.

#### NEW TAXATION.

The Provinces are to impose (1) agricultural income-tax, computed to yield about 5 crores, (2) a surcharge on the income-tax amounting to  $\frac{1}{4}$  of the tax on personal incomes, calculated to produce about Rs. 3 crores at the end of ten years and (3) a terminal tax on commodities at *every* railway station. This is expected to bring Rs. 10 crores.

The Central Government should impose fresh taxation on matches, cigarettes and salt and devote the proceeds to the constitution of a Provincial Fund, which is expected to be about 14 crores. To this the central

government would transfer its surpluses from all available sources. The funds will be distributed according to the needs of the Provinces.

**The Provincial Fund.** It is recommended that statutory provision be made that this Fund should not be raided by the Central Government or diverted for other purposes. The Fund is to be administered by a Council of Provincial Finance Ministers presided over by the Finance Minister of the Central Government. The vote of the Assembly alone is sufficient for the imposition of taxes for this Fund; no certification by the Viceroy or ratification by the Council of State. The provinces can only move a resolution in their councils regarding any amendment or change.

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The beginner is advised to read the chapters on Public Finance in the following general works on Political Economy.

*Nicholson*. Vol. iii, *Taussig*, Vol. ii. *Pierson*, Vol. ii.

Among the best one-volume text books, Dalton's Principles of Public Finance (Fifth Edition) deserves the first place. The following are also useful.

*Mrs. M. E. Robinson*—Public Finance (Cambridge Economic Handbooks Series).

*Armitage Smith*—Principles of Taxation.

*Daniels*—Public Finance (out of date for the most part).

*Plehn*—Introduction to Public Finance. (Revised Edition, 1928).

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*Adams*—The Science of Finance. A few chapters are of much value.

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*Pigou*—A Study in Public Finance. Is a work of rare merit and well worth study by the advanced student. Up to date and progressive ideas are suggested.

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The works of Prof. Seligman are classics on the subject they deal with. The student is advised to read the first of them at least.

1. Essays in Taxation, 10th Edition, 1928.
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Among the works of Sir Josiah Stamp, the two following books would be found very useful.

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Most of these are historical and their value for the general reader is very limited. Shah's *Sixty years of Indian Finance* is perhaps the best. Vakil's *Financial Developments in Modern India* is also good. Banerjea's recent volumes "*Indian Finance in the Days of the Company*"; "*Provincial Finance in India*" "*History of Indian Taxation*" do not exhibit deep scholarship or painstaking effort. Ambedkar's "*The Evolution of Provincial Finance in India*" is good. P. K. Vattal's "*The System of Financial Administration in British India*" and Gyan Chand's "*The Financial System of India*" are the best on the Administrative side. *The chapters relating to Public Finance in R. C. Dutt's 'Economic History of India,'* (2 vols.) are still the short best historical account.

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## **The Movement for a Sounder Money**

# THE MOVEMENT FOR A SOUNDER MONEY



THE STABLE MONEY ASSOCIATION  
104 FIFTH AVENUE, NEW YORK

1929

X61:74

179

*"What we all want from this economic system  
is greater stability, that men may be secure in  
their employment and their business. . . ."*

**HERBERT HOOVER**



OWEN D. YOUNG

*The Stability of Money*

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NORMAN LOMBARD

*The Scientific Approach*

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FREDERIC A. DELANO ✓

*Research and Education*

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*The Problem of Prosperity*

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*Personnel of  
The Stable Money Association  
as of June 15, 1929*

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*November 15, 1929*

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SIR JOSIAH STAMP	England
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ERRATUM

*Page 54. Read under date of 1922 Genoa instead of Geneva.*

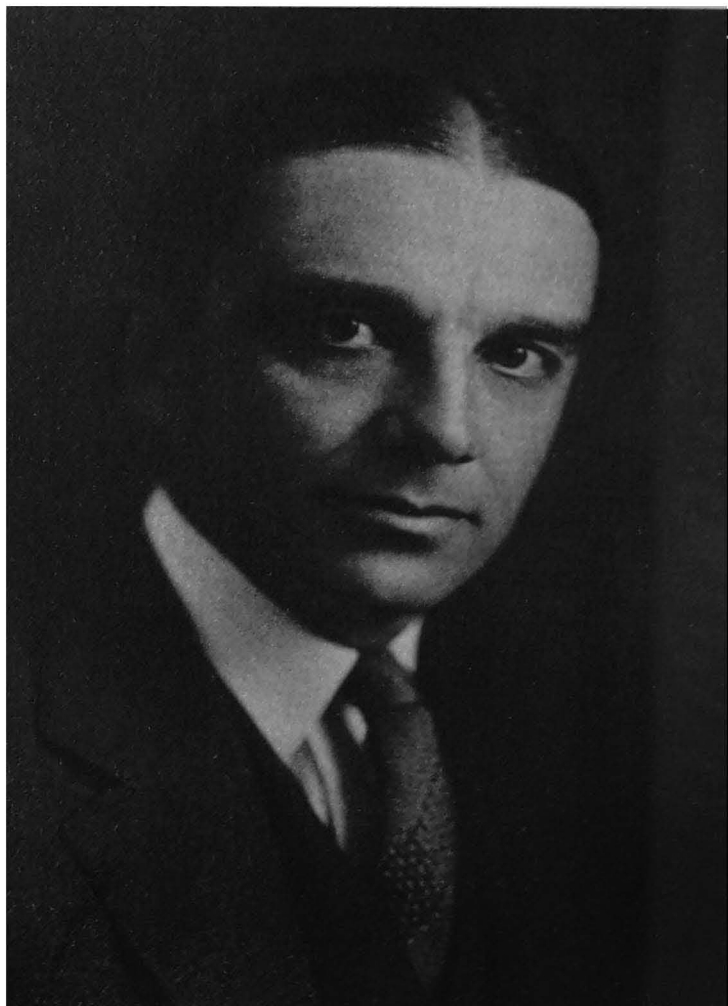
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*The italics used in this  
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sarily those of the authors.*



**OWEN D. YOUNG**

# THE STABILITY OF MONEY

## *It Goes to the Very Basis of Life*

BY OWEN D. YOUNG\*

☆ ☆

YOU may say that the fixing of the rate of rediscount by the Federal Reserve banks, or the Bank Rate, as the rediscount rate of the Bank of England is called, is a purely financial matter, *but I know of no matter involving more moral problems than fixing the bank rate.*

The *bank rate affects credit, increases or diminishes the value, or purchasing power, of money*, giving every aged person dependent upon his savings more or less of good things to eat, affects the value of wages, of the incomes of savings bank depositors, all engagements between debtors and creditors, *the value of everything which is measured in terms of money.* That is why it is a high moral responsibility to fix the bank rate.

When I was in Germany, in February, 1924, sitting

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\* Excerpt from an address at the Park Avenue Baptist Church, New York, on January 20, 1929.

with the Dawes Committee, the purchasing power of the German mark was rapidly diminishing. Just as a toboggan moves more and more rapidly as it approaches nearer to the bottom of the slide, so the purchasing power of the German mark was more and more rapidly falling. The condition became so serious that industrial concerns began to pay wages daily. This occurred at noon time, and a double line would form at the pay window. On the inside the men were lined up to collect their pay, and beside them there was another row of wives, daughters and sisters who would grab the money as fast as the men received it, and run as rapidly as possible to the stores to spend it before its purchasing power decreased any further.

I remember putting a question for the Dawes Committee to the Representative of German labor: What can this Committee do for labor? I expected him to answer with one of the usual slogans, such as : Give us an eight hour day; or, Guarantee us against unemployment; but to my surprise he said, "*The one thing your Committee must give to labor in Germany is a stable money.* Do you realize," he said, "that under present conditions, with the purchasing power of our money rapidly decreasing, when some event is impending, like a child coming into the family, or the death of an aged or stricken mother, whose funeral expenses will

have to be met, it is impossible for the head of the household, by any existing device, to save the money which will guarantee the payment of the expenses involved?"

Savings in savings banks were melting away in their purchasing power just as was the money in the hands of employees. The same applied to investments in bonds or any of the usual savings devices.

*Never before had I realized how the stability of money goes to the very basis of life, and that, when any sudden change affects the purchasing power of money, it touches every kind of moral question and every kind of obligation.*



**NORMAN LOMBARD**

# THE SCIENTIFIC APPROACH

## *To the Problem of a Sounder Money*

BY NORMAN LOMBARD\*



**A**FTER this association had been in existence for about one year, a Constitutional Amendment was adopted, as follows:

The purpose of THE STABLE MONEY ASSOCIATION shall be to promote stabilization of the purchasing power of money by spreading understanding of:

The serious evils attending wide fluctuations in the general price level,

The preventability of such fluctuations,

The various methods proposed for stabilization.

The Association shall advocate the policy of stabilization and give publicity to plans proposed to this end but it shall not commit itself to any specific method or plan. No member shall be prohibited from favoring or

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\* Excerpts from introductory remarks at a luncheon in honor of Frederic A. Delano, President of The Stable Money Association, at the Bankers Club, New York City, on April 17, 1929.

supporting any plan or plans of his own choosing, and no member shall be bound by any action of the Association in this or any other respect.

Your attention is directed to the two adjectives: "wide" and "various." It is *wide* fluctuations in the general price level which we decry, and it is the *various* methods proposed for stabilization which we discuss.

The purport of this section of our Constitution has been put in the form of two brief expressions which are carried on our letterhead: viz., "We advocate a policy—not a method or a plan," and, "We stand for a stable price level—neither inflation nor deflation."

Regardless of the belief of individual members that certain specific plans or proposed laws are desirable, as means of promoting the stable money ideal, the Association does not espouse any particular formulation either of the economic and monetary principles involved or of the means of their application.

Someone has defined Democracy as "government by public opinion." Nothing is the subject of more universal interest and, therefore, a more proper subject of democratic concern than is Money; so it would seem to be obvious that there is no more necessary task than the direction of research and education toward the formation of an intelligent public opinion on this subject.



We are not deceiving ourselves as to the difficulties and perplexities involved.

We are well aware that further research is needed to enable the statisticians and economists to say, with any degree of assurance, to what extent the volume of monetary gold and the volume of currency and credit based thereon determine the price level; to what extent varying velocities of circulation affect it; and how quickly a change in the price level follows a change in any of these factors.

More light is needed upon the question of the influence on the price level of non-monetary causes, such as large crops of wheat or cotton, tariffs, and improvements in the methods of industry.

There is far from being complete agreement as to which of the index numbers is the best measure of fluctuations in the purchasing power of money, as to whether the index number should be based upon wholesale or retail prices of commodities; as to whether other things than the prices of commodities should enter into its calculation; as to how the different items entering into the calculation should be weighted.

Indeed, there is still doubt in many minds as to whether economic and social stability, which is our ultimate aim, can be promoted better by the application of proposed remedies to the monetary side of the equa-

tion, or to the commodity side, as in the proposals to regulate governmental expenditures by means of a "prosperity reserve," or otherwise.

These puzzles only serve to make the task more interesting to people of constructive minds.

As a research and educational organization, it is proper that we should take no official position with respect to these or any other matters which are in any large degree controversial, as thereby we are better able to facilitate solutions. However, there seems to be no substantial opposition to the idea that serious financial, economic, and social evils have been the direct product of wide fluctuations in the general price level in the past, and the world is coming to a realization that something should be done to prevent such things from occurring in the future. That is where we stand.

The present status of the matter has been well presented by Sir Drummond Drummond Fraser, a Vice-President of the British Institute of Bankers, in an article in the April 6 issue of *The Magazine of Wall Street*, from which I quote as follows:

"The future task of the central bankers who control the currency policy of various countries is emerging from the mists of monetary controversy and taking definite shape. Within a comparatively short term of years, it appears likely that their task will be recog-

nized as the prevention of disturbing fluctuations in the general price level, which are due, not to changing conditions in trade or in national habits, but to variations in the purchasing power of gold itself. A rise or fall in prices, indeed, is neither more nor less than an arbitrary alteration in the distribution of a nation's income as between different classes of its people; . . . and a begetter of strikes, lock-outs and other troublesome outward symbols of the friction resulting from the necessity of adjusting wages and other costs to a new series of values.

"It is obviously desirable that ways and means be found of regulating the supply of money and credit so as to obviate disturbing price fluctuations."

There is, moreover, a growing appreciation of the fact that a non-political, scientifically motivated, research and educational organization can be of immense value to, indeed, it is a necessary adjunct of, the various agencies throughout the world having to do with the determination of long range monetary policies and those charged with the responsibility for day to day action.

Otherwise, to whom shall individual statesmen, political parties, parliaments, treasuries, central banks, and other agencies concerned with this problem turn for light in times of doubt and stress. A glance over the monetary history, not only of the United States,

but of other nations, should show anyone that such an organization has been sadly needed in the past. Our greatest financial and political crises have had their genesis in misunderstandings which might have been avoided if these questions had been approached in a scientific, rather than a demagogic, spirit and with a background of intelligent information, rather than of ignorance and superstition. Instances are: the currency excesses of the Colonial, Revolutionary, and Continental Congress days; the political agitation arising out of the operation of the first and second banks of the United States, which led, indeed, to their final overthrow; the social disorders resulting from the deflation which followed the Civil War; the Greenback and Free Silver political campaigns.

In the hope that future agitation of a similar nature may not result harmfully to our existing financial institutions or lead to unnecessary political and social disorder, everyone having the well-being of society at heart should feel it a privilege to join in the research and educational activities of this Association.

In this connection, the words of Mr. Paul M. Warburg, as printed in our recent Bulletin, will bear repeating, although he was referring to this country alone, while our field is the world. He says:

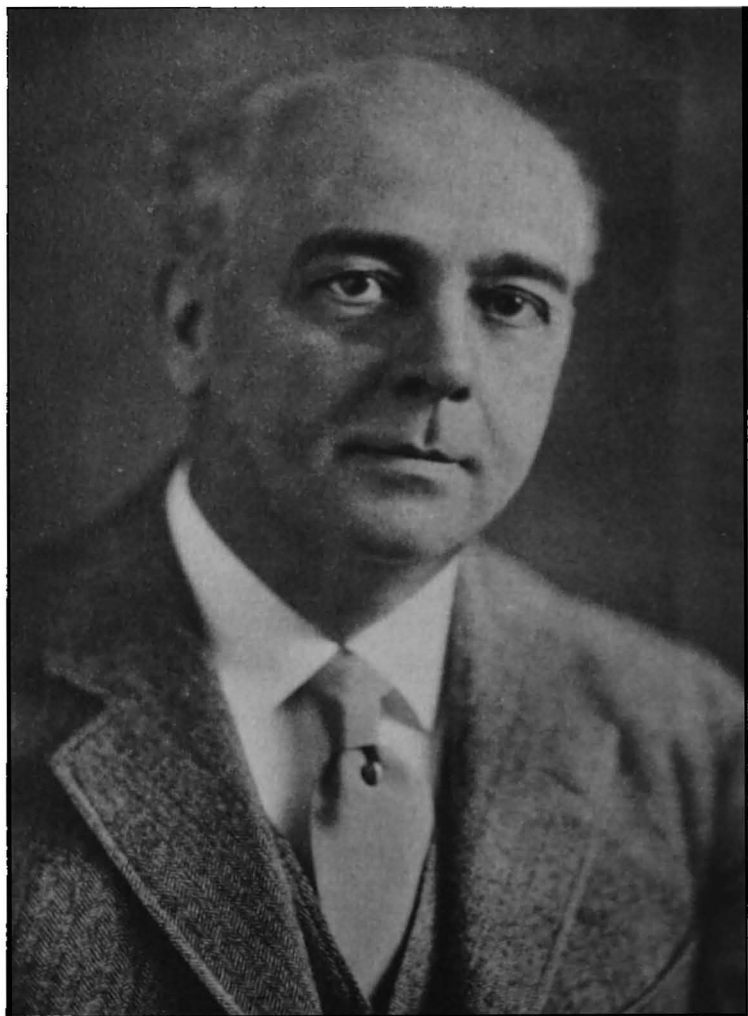
“Success or failure of this great Democracy in its struggle with its economic and social problems will largely depend upon the degree of understanding our masses and their leaders gain concerning these topics. Economic research and the dissemination of economic truths is, therefore, a task of the greatest moment. I do not know of any other that would outrank it in importance.”

Our former President, Dr. E. W. Kemmerer, is quoted as saying, just before he left for China, “It (stabilization) is the most important problem before the business and banking interests of the world today.”

Sir Josiah Stamp has characterized it as “the most bitterly practical of all questions.”

Mr. Owen D. Young says, “The stability of money goes to the very basis of life and, when any sudden change affects the purchasing power of money, it touches every kind of moral question and every kind of obligation.”

I am sure, therefore, that we shall listen with interest to any suggestions which Mr. Delano may now have to offer as to how we can best help in this most important work.



**FREDERIC A. DELANO**

# RESEARCH AND EDUCATION

## *The Approach to a Sounder Money*

BY FREDERIC A. DELANO\*



FIRST, I want to express my appreciation to you gentlemen for coming here in such large numbers today.

I accepted this job (as president of the Stable Money Association) with a great deal of reluctance, partly because I had a good many jobs on my hands already; partly because I thought there were others equally, or better, qualified to undertake it; but principally because I had some doubt as to whether the time was really ripe to tackle this thing.

There has never been any doubt in my mind as to the importance of the subject, but, as to the question of timeliness, I think that Shakespeare expressed my thought pretty well when he said, "There is a tide in the affairs of men, which, taken at the flood, leads on to fortune." Abraham Lincoln, when he was contemplat-

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\* From an address by Mr. Delano as President of The Stable Money Association at a luncheon at the Bankers Club, New York City, on April 17, 1929.

ing issuing the Emancipation Proclamation, said, "There is a right time to do a thing and there is a wrong time, and I do not want to do the right thing at the wrong time or the wrong thing at the right time." We must do the right thing at the right time.

If, here in New York, in this great financial center, the leaders of finance believe the time has come to put their shoulders to the wheel to try to find a solution of this question of stabilization—perhaps not absolutely stabilizing the purchasing power of money, but reducing the fluctuations in its purchasing power—I believe that progress can be made. So I have come here really to find out from you gentlemen whether you believe, with me, that the time is ripe to undertake the job and whether you are willing to give me your assistance, your moral support and your encouragement.

On my right is John V. Farwell who took the lead in the National Citizens' League, which was the forerunner of the establishment of the Federal Reserve System. There are plenty of people who claim to have been the father of the Federal Reserve System, but, whoever the father was, John Farwell's organization may well lay claim to the honor of having been the mother of the Federal Reserve, because the framers of that act had the benefit of the campaign of education carried on by that organization.



People in this county had had about enough of financial chaos in the years from 1893 to 1896 and in the money panic of 1907, so that the banks of the country, the industrialists, and the best of the politicians agreed that it was time to do something. So they got behind the National Citizens' League morally and financially. The result proved that the time was then right to do that thing.

Is there now a sufficient appreciation of the present need to take the next step forward?

We are all familiar with charts that illustrate the extent to which our unit of value fluctuates, and most of us realize the seriousness of the consequences of these fluctuations, how they affect business, how they affect the fortunes, the income, the well being of the individual man and woman, and what serious social and political disturbances they bring. So the next step would seem to be to decide what can be done about it.

Being an engineer, my approach to the problem would be, first, to study the causes of these fluctuations, to bring together the results of such research as has been conducted on this subject, to encourage all qualified organizations to make similar studies, and then to spread the information thus secured as far and wide as possible.

Some of my friends on the Federal Reserve Board,

when I accepted this position, very properly asked me what I expected to accomplish. I told them that one of the first things I was going to do was to ask them for a great deal of information. I know they have a very competent staff of investigators and statisticians, and I think this organization ought to have the benefit of the information which that staff has gathered. The Chamber of Commerce of the United States, also, has a fine staff of well-paid men; every one of the big universities is doing important work along this line, as are the bankers' associations, the National Industrial Conference Board, and the Labor Bureau; the League of Nations has a committee at work on the problem; the International Labour Office has published some very good studies; and many corporations and foundations have their economic research departments which are interested in this matter.

Now, if we can gather together all the facts developed by these organizations and deduce from these facts the essential principles, I think that we can, step by step, work out a solution. That is my line of approach.

I hope we can create in the prominent cities of the United States branches or nuclei composed of people who are interested in the problem; sending them from our headquarters such information as we have gath-

ered; encouraging discussion of it; gradually building up a sound public opinion.

After the Federal Reserve Act was passed, there were some very prominent bankers who said it was the greatest instrument of inflation which had ever been created, and there were equally prominent bankers who said it was the greatest instrument for contraction which had ever been created. I think both were right, because it is largely a matter of management, but the whole argument showed a lack of real understanding which was deplorable and this lack of understanding continues today. While the Federal Reserve Banking System is not perfect—and at the present moment it certainly is being sharply criticized—it is a very long step ahead of anything that existed before and any monetary system needs intelligent understanding not only on the part of its administrators, but also on the part of the general public, if it is to serve the best interests of the people for whose service it is designed. Possibly one of our most important functions will be to help in developing such an understanding.

I should like to emphasize another very important way in which such an educational campaign as this organization is conducting can be helpful. From time to time bills are introduced in Congress which have to do with some aspect of the money problem and schemes

are being proposed, both in and out of Congress, some of which, while quite unsound, receive a large measure of popular support. I am not going to praise or criticize any of these bills or proposals, because this is not the time to do so; but, it seems to me, it is a great deal better to conduct a campaign of education on this problem before such bills and schemes are proposed rather than to wait until unwise bills are offered and then try to prevent them from being passed, or worse yet to wait until an unwise law is enacted and then try to correct the damage which it may cause.

A necessary part of our work, it seems to me, should be to prevent any scheme from being adopted which will be dangerous, and any solution that may be worked out must be so elucidated and clarified in the minds of the rank and file of our people, our politicians, our business men, our students, our bankers, before it can ever secure general support; but, first, we have to inform and convince ourselves. Hence, there seems all the more reason for us to proceed thoroughly in securing our data, agreeing on certain basic principles, so we shall be enabled to secure support for the general policy we advocate.

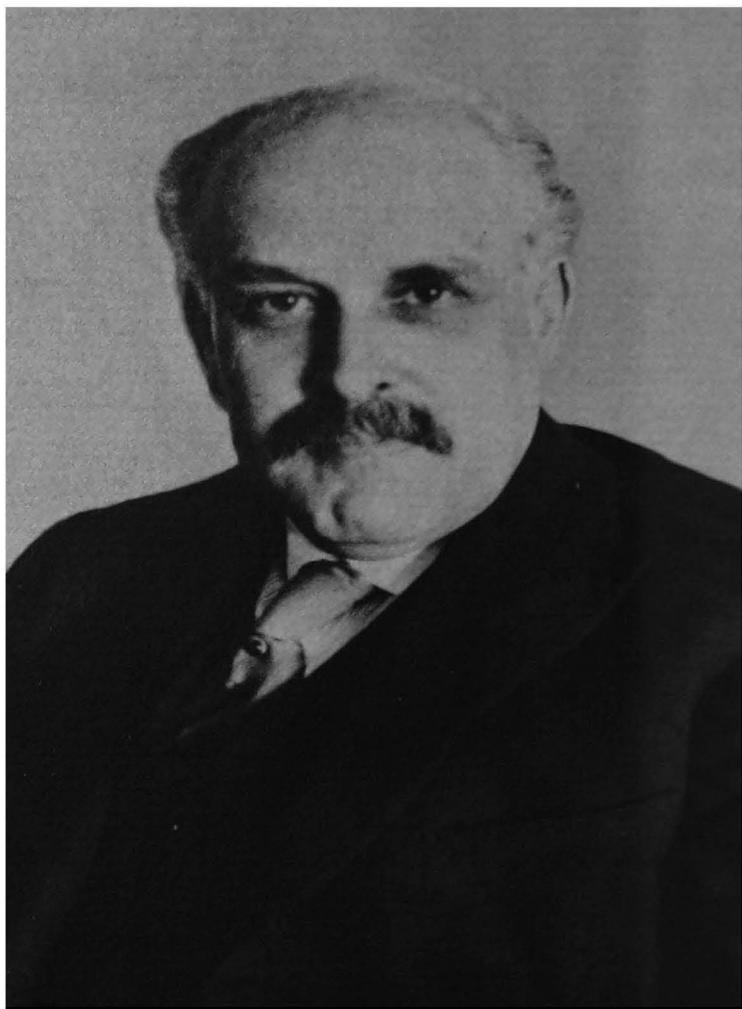
Mr. Owen D. Young, whose interest in this movement is well known, is now in Europe, undertaking a tremendous work, which, if successful, ought to con-

tribute very greatly to the solution of the problem.

People must think of this matter not only from the point of view of whether any change in price levels, due to faulty monetary policies, will hurt their pocket-books tomorrow, or next year; they must also come to appreciate the vital social necessity that a sound solution of the problem of stabilization be found.

This organization ought to have the benefit of the co-operation of every citizen who is public spirited and intelligent enough to be interested in seeing sound monetary policies adopted and enforced. Those who do not join us in this effort cannot well complain if the wrong people take hold of this problem, or if, because it is neglected, great harm results.

In fine, I have become convinced that the time is ripe, and that we can reasonably expect to make definite progress toward a sound solution of this most important problem. I hope you will all continue to show your interest and to lend your encouragement.



**SIR JOSIAH C. STAMP**

# THE FIRST NECESSITY OF THINKING TODAY ON SOCIAL QUESTIONS

BY SIR JOSIAH C. STAMP\*

☆ ☆

WHEN I have said quite seriously, as I have done on a number of occasions, that *the problem of the price level is the most important single problem of our age*, I have been accused either of exaggeration or flippancy. "What about trade depression in the basic industries, unemployment, labour unrest, class hatred, high taxation and the rest?" My answer is that *the problem of the price level is fundamental to a solution of them all*.

The future outlook is quite uncertain; we treat what happens as an act of God, and hope for the best. As we go on making civilization more complex, we make it more dependent for its survival upon a single factor that we treat empirically and fatalistically. Compared

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\* From an article in *The Spectator* of London, November 3, 1928, entitled: *Public Opinion and the Price Level*.

with ten years ago the number of people who catch a fleeting glimpse of the meaning of the problem when they are thinking of it specially, is increasing, but still it forms no real background to their minds and is lost sight of altogether when concrete problems are under discussion. With business men there is still a sneaking feeling that references to the price level or index numbers are academic and highbrow, not practical or immediate. They move unfamiliarly amongst its contentions and feel uneasy as compared with the sureness with which they discuss comparative manufacturing costs or a fair wage, or sixpence off the income tax. When they listen to any close analysis of its problems, they claim curiously enough to be exempt from the necessity of understanding it, because they are essentially "practical." And yet *it is the most bitterly practical of all questions.*

When called upon to expound the causes of the troubles in the coal mining industry prior to the subsidy in July, 1925, and finding it necessary to refer to the all-commanding influence of the change in gold price levels in the preceding two years, I was conscious of being suspected of a doctrinaire and controversial attitude. When a provision was inserted in the Dawes Plan for altering the German annuities if the gold price level should change, many people, including, per-



haps, some of the Committee members themselves, looked upon it as a harmless concession to the academic mind, and not as something vital and predominant,—perhaps, in the long run, *the most far-reaching novelty in international relations*. If one were to make a similar provision in a wage settlement or a settlement of Inter-allied Debts, one would be suspected of “monkeying” with the immutable. A statement after dinner that *the change in the price level in the last three years has increased the burden of the national debt by a thousand millions, or added an invisible shilling to the income tax*, is treated on much the same level as an interesting anecdote—it is not challenged, but it simply does not “bite.” I do not believe that more than one business man in a hundred, on opening his newspaper observes the monthly fall in the price index with a sinking heart or any consciousness of its effect on the nation’s fortunes and of what it means to the economic account.

First of all, it is not sufficiently realized that *slowly falling prices are a deadening influence on business itself*. Almost unconsciously there is a steady drag upon the margin of profit; if the other items, as in the coal industry, have no elasticity and do not change correspondingly the margin may disappear altogether. They provide good times for the people who are in work be-

cause they steadily increase the value of money wages, but *they gradually reduce the number that are in work for they continually restrict the area of profitable business*. Only if prices have remained stable at a lower level for some time are these effects overcome. *Quite as good business can be done on one price level as on a level twice the height*, provided it is a stable level and all the factors have been fairly adjusted to that level. *It is the transition from one to the other, without an even or proportionate change in all the factors, that works the mischief*. This was the creeping paralysis that came over business in the eighteen-eighties, when the witnesses before the Royal Commission on Trade Depression alleged and urged every reason except the true one. Today, the several factors are more rigid, and difficult to change.

In the second place, with the greater purchasing power of money, *all receivers of fixed payments*, such as the interest on War Loan or repaid War Loan or debentures, *take a larger toll of the national production*; they are entitled to their "sterling," but in effect their rights become more burdensome and leave less of the output of industry for others *with every fall in the index number*. It brings about the *worst type of redistribution of income, viz.*, that which is due as the reward for current production and that due for past sav-

ings; and also that between the capital put up for safety (debentures) and that for risk. *If the present rate of price decline over the last three years is continued for the next ten*, we shall find no relief whatever in taxation, even if production and population increase substantially.

In the third place, all the machinery for wage settlement on a large scale, conciliation and all industrial co-operation, presuppose that the settlements, when made, are real and fair ones, and mean the same next year as they do now. But *any such considerable variation either way as is brought about by fluctuations in the value of gold, as reflected in the price level, prevent such settlements from "staying put."* We have not yet reached a stage of mutual social and political and international confidence when we can readily adjust them, for this factor alone, without the urge of imminent trouble. Again, there is a suspicion of faking and special pleading, and a disinclination to make any change until the rift between old and new facts is not merely apparent to the touch of figures, but a yawning one, to the peril of destruction. *Ten years' work in building up a spirit of solidarity and community of interest in the productive field can be destroyed by a single year's fall or rise in the price level.*

What then, to do about it? Great progress has been

made. Each year since 1924, despite the total decline, has shown a continually improving stability in the year itself, down to 1928. In 1925 fluctuations were on the average 3.1 per cent. of the year's mean level; in 1926, 1.9 per cent.; in 1927, 0.92 per cent.; and 1928 (so far), 1.6 per cent. (On another index, the figures are 2.8, 1.47, 0.78 and 2.3 respectively.)

*It is not enough, however, to reduce the monthly fluctuations, which are really minor questions, giving rise to no real social difficulty; it is necessary to ensure long period stability, and here we seem to be at the mercy of almost unknown forces. (During the period in question the total fall was 14.2 per cent., or more than double the aggregate of the mean variations. We could well do with much wider monthly fluctuations if we could secure a steady, average level, with no greater change than has taken place between 1926 and 1928). The annual productivity of gold mines, the results of chemical research in mining, the resourcefulness of banking policy, and the decree of the financial community as to what shall be the approved and "done thing" over the ratio of total credit to gold reserve, are all inter-working factors. The greatest, however, is *conscious public opinion, determined to have a yard-stick for its most vital relationships that is not made of jelly or elastic. Public opinion must get in the habit of ask-**

*ing about every question involving contractual relations and monetary values over long periods of time, or between nations or large classes of people, with public or international policy involved:—“What are the consequences if it does not stay put?” This involves going behind the monetary façade, seeing the whole stream of production from which we draw our living, and watching the allotment of goods to different people changing silently, arbitrarily, and without justice—between British, French, and American (for reparation and debt payments); between past lenders and present lenders, and risk-takers, in the capital and interest of business and government; between providers of work by hand and brain and providers of capital, in the division of the product of industry.*

*That the true underlying causes of many of our social troubles should be laid bare is essential in the interests of clear dealing with public issues, and public opinion should be moulded by the truth. That, having done it, we may still be without a remedy, or an effective remedy, is beside the mark; we shall at least have learned not to blame the wrong causes, and not to base our hopes upon remedies that must be a disillusionment. To clear away what Irving Fisher calls the “money illusion” is the first necessity of thinking today on social questions.*



**HENRI FUSS**

# UNEMPLOYMENT AND MONETARY FLUCTUATIONS

BY HENRI FUSS\*

☆ ☆

THE International Labour Office has already, and on many occasions, drawn attention to the unstable conditions of employment which, in most countries, follow from the alternate rise and fall of the general price level. Periods of falling prices, it has been pointed out, are characterised in the great majority of cases by increased unemployment. That this is no mere coincidence is proved at once by the great number of cases in which the correspondence has been observed, and by an analysis of its causes.

In the first place, proceeding by the method of theoretical analysis, it may be assumed that 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

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\* Excerpts from a report—Series C, No. 13—by the International Labour Office, Henri Fuss, Chief of the Unemployment Section.

the purchase of those 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. The cause of this higher rate of increase may be, for example, an increase in the supply of currency, an expansion of credit, or some change in the organisation of the banking system—some form of “rationalisation,” to use a fashionable term—as a result of which there is an increase in the velocity of circulation. But whatever the cause of the relative abundance of means of payment, its effect is clearly that of a stimulus, perhaps artificial and monetary, 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 means of payment are relatively scarce as compared with the supply of commodities offered 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. It would thus seem that the alternate excess and insufficiency of means of payment as compared with the quantity of goods offered for sale constitute an almost automatic cause of expansion and contraction of trade, and hence



of an alternate increase and decrease in the capacity of absorption of the labour market.

To this automatic factor must be added a factor of a psychological or speculative order. A rise in prices occasioned by excessive expansion of the means of payment leads buyers to hasten their purchases, so as to take advantage of lower prices; while a fall in prices, on the contrary, leads buyers to delay their purchases, with the intention of profiting by better terms later on.

It is hardly necessary to point out that the tendencies thus produced on the labour market by movements of the general price level may be counteracted by the effects of a number of other factors acting simultaneously on trade as a whole. It follows that, even if the observed facts did not reveal a broad correspondence between the changes in the general price level and the movements of unemployment, the inference would be, not that the movement of prices does not react on the labour market in the direction indicated, but simply that other, and stronger, forces have acted in a contrary direction. Where, however, the expected correspondence is found to exist in the majority of cases, this will be evidence that the monetary factor really does influence the labour market, and, what is more, that it predominates over other factors capable of acting in the opposite direction.

[Here follows an exposition of the facts as revealed by studies in a number of countries.]

Having elucidated these facts, which on very many points confirm theoretical conclusions, it seems to be possible to declare emphatically that abrupt, or even slow but prolonged, variations in the general price level, or in other words, disturbances in the equilibrium between production and the means of payment, play no small part in determining the alternating acceleration and retardation of economic activity, and are hence an important cause of the recurring unemployment crises which mark one phase of the cycle.

If, then, the magnitude of variations in the general price level could be reduced, an important cause of unemployment would be rendered less potent. But is such reduction feasible? This is the vital question, to which those competent in the matter are becoming more and more inclined to return an affirmative answer.



**CARL SNYDER**

# THE PROBLEM OF PROSPERITY

BY CARL SNYDER\*

☆ ☆

IT is not without interest that the phrase "hard times," so widely prevalent in economic writings for several generations, has almost disappeared from the vocabulary of our own.

. . . . .

These latter periods of financial and industrial disturbance seem largely due to a state of imbalance which appears to arise from a disparity between the growth of the volume of trade and production, on the one hand, and the volume of credit on the other.

. . . . .

Is history indefinitely to repeat itself? How far may this general sequence of events guide us as to what is to come? Does the economic history of the last sixty or eighty years really afford us a clue?

\* Excerpts from annual address as President of the American Statistical Association, on December 27, 1928.

But back of every such era apparently the most important factor always is the increased spending power derived from the expansion of the circulating medium, which, I need not say, in our own time is almost wholly a question of bank deposits. This seems the primal condition for all booms. This is, if not the *vis primus*, at least the enacting clause of all undue expansion. I repeat here my favorite simile of the tethered cow. It may browse with freedom within the range of its rope, but expansion beyond this point is clearly conditioned by a lengthened tether. But this expansion has definite limits in its effects.

. . . . .

If, now, we gather together the threads of the argument, what conclusion may we reach? We have seen that, historically, every period of unusual expansion or boom has been followed by a corresponding depression, and that the resulting rate of growth of our wealth and of our product in the whole period has been no greater than the average in more peaceful or normal times, when the boom spirit is absent. In other words, these boom periods, which we have come distinctly to associate with the idea of national prosperity, seem to represent in the end no clear national gain. Why, then, should we have them?

Years of unusual expansion are paid for by lean years of depression and unemployment, often involving widespread suffering. High hopes are brought low, fortunes are wrecked, and, worst of all, the business and economic morale of the nation seriously impaired. When fortunes can be made gambling in pieces of paper, of what utility or attraction are the antique virtues of industry, sobriety and thrift? These are temporarily thrown into the discard, reluctantly and discontentedly to be resumed when the house of cards has crumbled.

. . . . .

There is yet another side. There is evidence that these periods of boom and heavy gambling represent a distinct transfer of wealth and income from the many to the few, from the ignorant and imprudent to the pockets of the sagacious, the farsighted and the crafty. Always in such periods there is a vast number of wild-cat flotations which bring incredible losses to the unwary.

. . . . .

But if we may not change the American spirit, and still less attempt to regulate the movement of our vast industrial machine, can we do nothing at all? One thing of profound importance I think we may do. We

have seen how closely our industrial expansion is bound up with the supply of capital and credit. Other immediate sources of capital represent largely a conversion of funds from this primary source. What we term saving and thrift seem very largely constant forces. They rise with credit expansion and decline with its contraction. In the long run, of course, the amount of real saving may represent a nearly constant relationship to the real income and real product of the country. For the time being, at least, it is clearly augmented by inflation and depressed by deflation.

*If, then, the augmentation of the credit supply is the vital factor, we have here what may well be an object of the most general concern, especially if, as seems true, this is in large measure subject to rational control.* We have learned to measure the rate of our industrial growth. We may, likewise, measure the rate of credit expansion from year to year, and even month to month. Between the two exists the definite balance of which I have spoken.

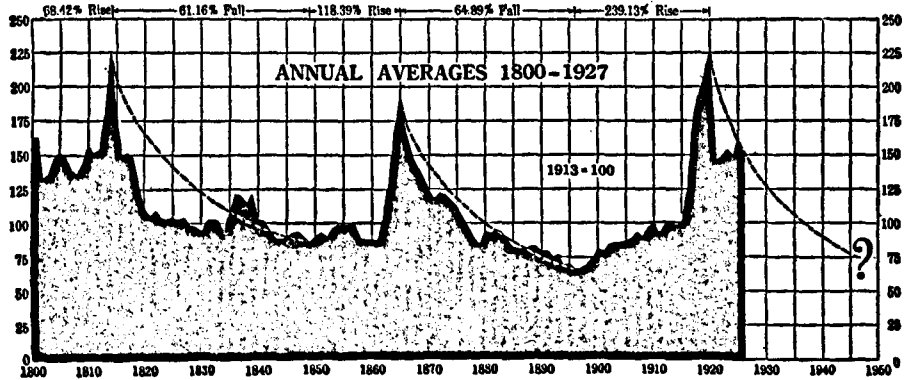
The evidence now seems clear that *an excess of the rate of credit expansion over the growth of production and trade results merely in the familiar forms of overstimulation, inflation and speculation. If the rate of credit expansion falls below that of the normal gain in product, the result appears to be a crimping and con-*

*tracting influence, bringing with it unemployment and a check to the normal growth.*

*The proof of this narrow relationship, this sensitive balance, seems to me the most important contribution which statistical investigation has made to economic theory, and its recognition as a working rule of banking and credit policy may prove the greatest gain which we have derived from our now centralized and unified banking system.*



## SIGNIFICANT DATES IN MONETARY HISTORY



(Chart of the annual level of prices in the United States based on the index number of the level of prices of commodities at wholesale of the United States Bureau of Labor Statistics.)

1814-1849 Period of falling price levels. Decline of 61 per cent (U. S. Bureau of Labor Statistics). Every life insurance company in the United States, with one exception, either failed or changed the nature of its business. (John A. McCall.)

- 1849 Gold rush to California.
- 1849-1865 Period of rising price levels. 118 per cent increase (B. L. S.). Over three hundred new life insurance companies were organized in the United States.
- 1865-1896 Period of falling price levels. Decline of 64 per cent (B. L. S.). Every railroad in the United States, with one exception, was reorganized.
- 1871-1880 Forty-six life insurance companies went out of business in New York State.
- 1871-1878 About one-fourth of the savings banks in New York failed. (Superintendent of Banks of New York State.)
- 1873 "The crime of '73." Panic.
- 1874-1884 "Greenback" agitation.
- 1892 Homestead strike. Widespread bank, mortgage company, and business failures.
- 1893 Cyanide process of gold extraction invented.
- 1896 First Bryan Campaign—"free silver."
- 1896-1920 Period of rising price levels. 239 per cent increase (B. L. S.). Discussion of "high cost of living."

- 1914 Federal Reserve System organized.
- 1914-1920 \$60,000,000,000 of value unjustly transferred. (Dr. W. I. King.)
- 1919 4500 strikes in the United States—over 5,000,000 men affected. (Alexander Hamilton Institute.)
- 1920 McCormick resolution passed by United States Senate ordering deflation. The dollar had fallen to a value of 28 cents relative to a value of 100 cents in 1896. Over 4,000,000 men unemployed. (Harding Unemployment Conference.)
- 54 •  
1920-1922 Period of falling price levels. Decline of 44 per cent in 20 months (B. L. S.). One million farms foreclosed. (Prof. F. A. Pearson.) Over \$20,000,000,000 loss to American farmers. (Senator Borah.)
- 1922 Geneva Economic Conference of over thirty nations passed resolutions recommending stabilization of domestic price levels and co-operation of central banks in stabilizing the value of gold.
- 1922-1929 United States: Period of comparative stability and unprecedented prosperity, monetary circulation increased as the volume of business increased. Abroad: Period of falling price levels, credit restriction, trade depression.
- 1929 Meeting of Conference of experts at Geneva called by the League of Nations to study the problem of stabilizing the value of gold.

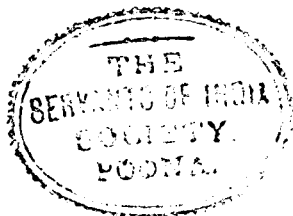
*"History has shown that apart perhaps from wars and religious intolerance no single factor has been more productive of misery and misfortune than the high degree of variability in the general price level. This may sound like an extravagant statement, but so far from being of the nature of demagogic outburst, it is clearly demonstrable from the course of events in various countries ever since money became an important element in the life of civilized communities. A stable price level is a thing to be desired, second only to international and domestic peace."*

—Extract from the Monthly Review of the Midland Bank Limited, London, June–July, 1927.

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THE  
Ratio Controversy in India:  
A RETROSPECT



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This retrospect and review of the Ratio Controversy in India was first published as an article in the *Asiatic Review* of July 1929, and I am obliged to the editor of that journal for permission to have it reprinted. I have availed myself of the opportunity furnished by the present reprint to make considerable additions to that article in the hope that it might prove of some assistance to the public in examining the leading aspects of the Ratio problem. Our controversy on the ratio question forms an important phase of the great currency controversy of the post-war period relating to deflation and stabilisation. It will also occupy an important place in the economic history of India. This little book is designed to serve as an introduction to a subject of such many-sided interest and as a discussion of its main issues in the light of the economic developments of the post-war period.

J. C. C.

## THE RATIO CONTROVERSY

THE scheme of monetary reconstruction which the Royal Commission on Indian Currency put forward was a very comprehensive one; it contemplated among other things the establishment of an up-to-date and automatic currency standard, the constitution of a currency authority in the shape of a Reserve Bank (which should combine the control of currency and credit), and the thorough overhauling of the paper currency system of the country. Nevertheless, the controversy which followed the publication of the Report of the Commission has raged only around two points of this programme—the ratio and the constitution of the directorate of the proposed Reserve Bank. The surprise with which one regards this

selection of two apparently isolated points of the programme for criticism is, however, removed when we remember that the controversy in India over the ratio question is the counterpart of the great struggle which has taken place in most countries after the war between the advocates of inflation and those of the return to a steady and moderate price level. It is also significant that the same set of critics who argued for the reversion to the lower ratio (with inflation as its corollary), also worked for the object of placing legislators on the directorate of the Reserve Bank and of thus bringing political pressure to bear directly on our future banking policy. In fact, the real issue in the controversy is that of inflation; and that fact accounts in the main for the vitality of the controversy. For, if adjustment of prices to the ratio was indeed the real issue, few would be

found to assert in this year (1929) that things had not adjusted themselves in a preponderant degree to a ratio which had held the field for five years, and the controversy would have died a natural death before now. But the ratio controversy derives its whole vigour and momentum from the inflationist aspirations behind it; it is the Indian counterpart of the struggle over readjustment of price levels to normal conditions which has been the most important economic movement of the postwar epoch in most countries of the world. It is on that account that the present controversy will occupy a not unimportant place in the economic history of India.

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#### THE "NATURAL" RATIO

There has been much misunderstanding over the character and

origins of the former 1s. 4d. ratio. Thus that ratio has been called the "natural ratio" and "the permanent ratio." It has been even confused with the currency standard itself, and in the dissenting minute of the Currency Committee of 1919 it has been called the "standard ratio." But a glance at the history of the ratio will show that those who proposed and sponsored it expressly disclaimed any permanent character for it. Thus the Herschell Committee was careful to explain the character of the ratio in its Report. "It would not, of course, be essential to the plan that the ratio should never be fixed above 1s. 4d.; circumstances might arise rendering it proper and even necessary to raise the ratio." So also the Fowler Committee was careful to emphasize the necessity of "the final ratio being fixed either below or above 16d., as further experience might show to be expedi-

ent." It added further that "between the rate of today and that determined by the bullion value of the rupee, there is none that can be described as natural or normal."

The advocates of that ratio would also do well to remember that the Fowler Committee in deciding for a 1s. 4d. ratio employed the very same arguments which were used by the Currency Commission of 1925-26 in order to justify the present 1s. 6d. ratio. The Fowler Committee expressly overruled every plea and answered every argument that the opponents of the 1s. 6d. ratio have put forward in our own days. Thus the Committee's main argument on behalf of the 1s. 4d. ratio was that "the rate of 1s. 4d. is that of the present day; prices in India may be assumed to have adjusted themselves to it, and the adoption of a materially lower rate at the present time would cause

a distinct and, in our opinion, a mischievous disturbance of trade and business." Another ground on which the Fowler Committee recommended the 1s. 4d. ratio was that in 1898-99 the prevalence of that ratio was found to be compatible with a large favourable balance of trade. The pleas that "the *status quo* had not been arrived at without manipulation and that a *fait accompli* in the shape of an established ratio and a price adjustment thereto had been presented to the Committee" were also overruled by that Committee. Not only is there a close and instructive parallel between the arguments employed by the Fowler Committee and the Royal Currency Commission of 1925, but the case for a 1s. 6d. ratio was much stronger in 1926 than that for a 1s. 4d. ratio in 1898. Little statistical proof was brought forward in 1898 regarding the adjustment of prices to the

older ratio, while the ratio itself had been prevailing only for about a year. Finally, the rise of the ratio to 1s. 4d. in 1898 was a very slow and hesitating affair indeed compared to the attainment of the 1s. 6d. ratio in 1925.

In the light of the above historical examination of the reasons for the establishment of the 1s. 4d. ratio in 1898, we can see how little ground there is for the contention that any later change of the ratio constituted "a wanton tampering with the standard of value." Gold has been restored as the standard of value in India, and gold will be—with the adoption of the proposals of the Commission of 1926—more than ever the basic currency "from which the other monetary instruments derive their own exchange value owing to convertibility." The essence of the gold standard is the tying of the value of our monetary unit to the value of



gold. But it cannot be contended that any particular ratio once adopted should or could be maintained for ever, regardless of important changes in prevailing conditions—for example, great changes in prices of precious metals. The factors which the Fowler and Herschell Committees took into account in recommending the 1s. 4d. ratio show that in their view the ratio was not either unalterable or of the essence of the currency system; for they based it professedly on a consideration of the prevailing facts of their own day as regards prices, trade conditions, and the relative prices of the precious metals. It is, of course, true that a standard unit of value once adopted should not be arbitrarily departed from; for any random changes in the standard of value are sure to cause losses to some people. So far one can respect the zeal shown for the older ratio. But

the changes in our ratio in India have been such as were absolutely necessary in the interests of the stability of prices—*i.e.*, of social justice. A statistician would be staggered at the number and the size of the fluctuations of prices which India would have experienced if she had adopted the policy of sticking to the old ratio at all costs since the war. It is true that the 1s. 4d. ratio held the field for nearly twenty years; but it need not be forgotten that more recently it was in abeyance for a whole decade—and for a decade which has seen currency and trade changes enough to crowd a century. Under these conditions the currency authority which is proceeding to stabilize the ratio would be well advised to consult the facts of the day for his guidance rather than the conditions prevailing three decades ago. In such an important affair those who admire the work of

the Fowler Committee would do well to imitate its procedure.

Those who argue for the maintenance of 1s. 4d. as a natural ratio certainly ignore the fact that there is a dynamic side to the problem of the ratio of exchange under the Gold Exchange Standard. To this aspect attention has been recently drawn by Prof. Taussig, a distinguished economist, in his discussion of the Gold Exchange Standard.\* He has urged that the maintenance of the fixed rate of exchange depends upon the continuance of certain fundamental conditions. "Changes from any established situation, any current rate of exchange, *however firmly it seems to be imbedded*, do occur. Demands will change, new articles of export and import will appear, the balance of international payments will need to be

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\* Taussig, *International Trade*, p. 382.

readjusted; then what?" Here is a formidable attack by an impartial and eminent authority on the idea of an irrevocably fixed "natural" ratio. His theoretical argument is strongly supported by the facts of the economic history of India; and India is a particularly good illustration of such theory in as much as it is a country producing raw materials for which the demand has grown more intense both during the war and after the war when economic reconstruction of the world has increased the demand for such products. At the same time, the demand of India for foreign manufactures has grown less intense on account of the growing industrialisation of our country under the regime of Discriminating Protection. The events of the last few decades emphasise the validity of this line of reasoning. Indeed an important contributory cause of the great rise of prices

in India before the war was not the Gold Exchange Standard but the ratio which had become ill-adjusted to the circumstances. Thus in the latter period of the war and right upto 1920 not many could be found to urge the claims of the 1s. 4d. ratio as *sacrosanct*. Indeed a leading industrialist and economist of India like Sir V. Thackersey advocated a stabilisation at 1s. 6d. It is also significant that a strong advocate of the 1s. 4d. ratio like Sir D. Dalal proposed a general export tax as the means of keeping up the old ratio. In such an extreme proposal is implied the same basic idea of the dependence of the ratio upon foreign demand for our products which has been explicitly put forward by Prof. Taussig. After 1920 came the great and general trade depression which for a time lowered the Indian ratio. But the action of the basic economic conditions of the world's

demand for Indian products could not be long withstood, and our ratio was not only stabilised at 1s. 6d. but it rose a good deal above it in spite of large purchases of sterling by Government. Indeed "it was believed that Government would not be able to keep exchange from rising considerably above 1s. 6d." The true correlation thus is to be traced between our exchange ratio and the course of the trade conditions.

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"EARLIER OPPORTUNITIES" OF  
STABILISATION

The contention has been advanced that suitable opportunities for stabilising the exchange at 1s. 4d. occurred in the years 1923-24, but that advantage was not taken of them. That contention can, however, be shown to rest upon a faulty perspective of the finan-

cial, monetary and commercial conditions of the time. As was well recognised, the *sine qua non* of the stabilisation of the rupee was a budgetary equilibrium; and that preliminary condition of stabilisation was not well assured by the years 1923 or 1924. Another desideratum was the improvement in the position of India as regards foreign trade, which implied, in its turn, an improvement in the trade conditions of the world.

The budgetary equilibrium which was admittedly an essential prerequisite of the stabilisation of the rupee was not reached until the year 1923-24 when a start was made with a surplus of two crores. As Sir B. Blckett put it, it was "the Budget of 1924-25 which signalled our definite escape from the era of deficits."

Indeed, as late as the year 1926, some eminent Economic authorities both in India and abroad were of

opinion that the time was not ripe for the stabilisation of the rupee. The stabilisation of our currency and exchange was in an important sense an international problem, and one of the leading considerations in determining whether the time for stabilisation had arrived was the possibility of a reasonable estimate of the future course of world prices and monetary policies. Naturally, the maintainability of any ratio to be fixed for India depended to a very great extent on the then uncertain course of prices and monetary developments abroad. In the quinquennium 1920-25 great monetary developments have taken place in various countries and economic opinion on important currency matters has been in a state of flux—there being on one hand a tendency to go back to pre-war arrangements and on the other hand strong suggestions to make radical departures from them. The



price and discount policies of the leading countries had been discussed, experimented upon and gradually and in some measure settled. Nor, with the best intentions, had it been possible to prevent considerable price fluctuations. Prices in England went through a great fall through the years 1920 and 1921. There was another but much smaller rise of prices in 1922-23 and a later fall in 1925.

American prices too had gone through great fluctuations between the years 1920 and 1925. In that country there were noted during the period no less than three periods of rising prices—1920, 1922-23, and 1924-25—and two periods of falling prices corresponding to the years 1920-21 and 1923-24. Many other countries had their full share of what Prof. Edie has well termed the “outstanding phases of this period of price turbulence.” He added that “this shifting of rela-

tions is not confined to money and prices alone. It extends to the outside factors, such as unbalanced budgets, foreign exchanges, industrial and trade conditions and psychological changes reflected in optimism and pessimism."

Such uncertainty of prices and of price-policies in the leading countries added greatly to the risk of maintaining any ratio that had been fixed at that time. Had the gold prices fallen materially, after India had fixed such a ratio, we should have had to undergo a further and strong deflation with all its inconveniences. On the other hand, there were powerful partisans of inflation both in England and in the United States at the time. The danger was the greater from any inflationist success in the latter country, with its vast accumulated gold resources and its position as the great creditor country. Looking to the

banking situation in the United States, Bonnet\* well remarks that with the bank reserves climbing up at some periods as high as over 80 per cent. at times, the maintenance, on the whole, of a wise and moderate credit and price policy on the part of the Federal Reserve Banks has been a marvellous and wholly unexpected phenomenon. This is to be attributed to the new spirit which has actuated the Federal Reserve Board and the new task which it has set before itself. That task has been to keep the purchasing power of money stable, an aim that was almost unknown to the pre-war banking theory or practice, generally speaking. The method adopted has been not to avoid all increments of credit but to so regulate it as to keep prices steady. The method was, of course, not learnt

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\* Bonnet, *Experiences Monetaires Contemporaines*, p. 58.

in a day, and a great mistake was made at the start in 1919-20 in the great expansion of Reserve credit. But as time went on, the new ideals and methods were adopted not only in America but later in England also. However, at the time of which we are speaking—in the years which followed the Indian Currency experiment of 1920—there could be no assurance or even glimpse of such a new and wise price policy to be followed by America. Nor, further could it have been anticipated how, under the guidance of the late Governor Strong, America would assist in the monetary reconstruction of a number of European countries, and thus facilitate the task of monetary reform generally. Before that development the only hope of the stabilisation of prices and currencies seemed to be in an international co-operation guided by international

conferences. We know that Dr. Vissering and other economic authorities worked since 1920 in that direction. But we also know how frequently futile and generally dilatory such conferences can be. Fortunately, however, events took a new and unexpectedly favourable turn about the year 1924-25.

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#### DEFLATION

It has also been contended that the stabilisation and maintenance of the exchange at 1s. 6d. was due to currency manipulation in the shape of "excessive deflation" and "undue contraction of currency in India." It is submitted here that there is a double fallacy involved in this line of reasoning. Not only is the extent of the actual deflation exaggerated, but the efficiency of monetary deflation as a factor in monetary stabilisation is

unduly magnified. Compared to the great inflation of the war period in India, the deflation of the period from 1920 to 1923, which amounted to about 38 crores, can only be called a moderate one. The fall of prices brought about by it cannot be compared for a moment with the results of contemporary deflation in the United Kingdom or the United States; while it was a long time before any tangible effects of our deflation on the exchanges could be perceived.

The fact is that the recovery of the Indian exchange was due, not so much to the halting and moderate monetary deflation, as to a singularly fortunate combination of the various factors which are recognized as being necessary for currency stabilisation. By 1925 we had the advantage of the restoration of budgetary equilibrium, and we were reaping the benefits of that "financial" deflation which is

now recognized by economic authorities as so much more efficacious for stabilisation than monetary deflation. Then, again India was entering on a new era of favourable balances of trade, and was showing a recovery from the trade depression which was unique in the annals of post-war commerce. This combination of favourable factors was partly fortuitous, but it was partly also the deserved reward of wise finance and timely deflation, as well as of that patient policy which withstood the temptations to premature stabilisation. It is owing to this combination of factors favourable to stabilisation that India has paid a much smaller price for currency stabilisation than other countries. Countries which have raised their exchange under less favourable conditions have indeed paid a stiff price for the stabilisation in the shape of increased unemploy-

ment and a great strain imposed upon the unsheltered or competitive industries. But to contend (as some critics have done) that India has to face difficulties of the same magnitude in the process of stabilisation, or to argue that the necessary period of readjustment to the variation in exchange should be at least as long in the case of India, is to disregard and ignore vital differences of economic conditions between the countries concerned.

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#### THE HISTORY OF DEFLATION

A brief review of the history of deflation in India is very necessary in order to get a correct view of its true dimensions especially from the comparative point of view. Let us first consider the years 1920-22 when the need was particularly felt for offset-



ing the great inflation of the war period and for adapting the volume of currency to the facts and requirements of the period of depression. In this period however, the process of deflation in India was greatly hampered by the budgetary deficits following on the year 1920 which led to a postponement *sine die* of the extinction of "created securities" in the paper currency reserve. "The existence of budget deficits of a substantial amount clearly made currency contraction a matter of difficulty"; nor could the sales of reverse drafts be fully utilised for deflation. The total deflation in 1920-21 amounted to 31 crores. We had nothing like the drastic deflation which took place in Great Britain in 1920-21 which halved prices, and which is now justified even by a stalwart opponent like Mr. McKenna. He observes in his book on Post-war Banking Policy that "deflation, even

rigorous deflation, was a harsh necessity in 1920 and 1921." This "monetary" inflation on the lines of the Cunliffe Report was preceded by a "credit" inflation. About the same time a similarly thorough measure of deflation was carried out in America. It was a remarkable chapter in the history of post-war deflation, and by June 1920 the rediscount rate was raised to 7 per cent. A high authority like Dr. Willis asserts that "the operation of credit control through higher discount rates was a marked success." Mr. Hawtrey observes that "in so far as the expansion had got out of hand, the subsequent contraction had to be more severe."

When compared with the immense inflation during and after the war, and the lessened volume of post-war business, the succeeding deflation was certainly partial and hesitating. The extent of the inflation between the

years 1914 and 1919 can be judged from the rise of the rupee circulation from 187 crores to 280 crores and of the note circulation from 61 crores to 183 crores. Later, the deficit years were financed by the issue of notes amounting to much above thirty crores. As compared with this huge inflation the deflation could not be said to be drastic in any sense. Even the sale of Reverse Councils in 1920 was not allowed to have its proper effect in deflating currency; since in other ways much of the money was replaced on the market, on the ground that adequate contraction of currency would have been "a hazardous undertaking" and that, too, while the world prices in gold were falling rapidly. The net contraction of currency in 1920-21 amounted to 31 crores and 58 lakhs; but this contraction was found "insufficient even to check the downward fall of the rupee." In the suc-

ceeding two years a net contraction of 680 lakhs was made. The credit for the improvement in Indian exchange was due far more to the balancing of the budget and to the cessation of the downward movement of the world prices than to this deflation. In fact anything like a drastic deflation was for a long time out of the question on account of the successive budgetary deficits. And, though the Paper Currency Act of 1920 embodied some ideals of ultimate deflation, even this attempt at indirect deflation was foiled, since the *ad hoc* securities could not be cancelled, and the interest on paper currency securities had to be credited to the general budget. There was still another circumstance which rendered drastic deflation impossible in the case of India, and that was the intolerance always displayed by the Indian money market towards deflation.

A most important circumstance in making the factors of stabilisation favourable to the experiment in India has been the budgetary equilibrium which has been attained for several years in India. This notable factor in the adjustment has not been even referred to in our controversy, where the critics have confined themselves to emphasising and exaggerating the monetary deflation which is a comparatively minor factor in the situation. The economists of Europe have however formed juster notions of the potentialities and important effects of the attainment of budgetary equilibrium. The result of the studies of Prof. Rist on this topic has been thus summarised: "the underlying explanation of the facts of inflation and depreciation lies in the budget situation, and that the very possibility of deflation is dependent on the establishment of budget equilibrium.

Granted such an equilibrium, an improvement in exchange will follow of itself, as will a fall in prices. The amount of money is here strictly a resultant.”\* That is one way of stating the thesis; another and perhaps a better one is that the raising of exchanges and lowering of prices are the common products of the equilibrium of the budget which is the dominant element in the situation.

In the second period 1922-23 there was a further contraction of about six crores. Such a deflation though not important by itself was assisted by the trade recovery and after a time LAG the exchange gradually rose.

A great deal has also been made of the later deflation between the years 1925 and 1927, but it has not always

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\* J. W. Angell, *Theory of International Prices*, pp. 298-299. See also the *Quarterly Journal of Economics*, Vol. XXXIX, pp. 280-281 and 294.

been remembered that important deductions have to be made from the figures of the gross deflation.\* Between October 1925 and May 15, 1927 the net contraction of the note issue has been 32.10 crores. But, when allowance is made for the 13.14 crores of rupees which came back into the reserves, the net contraction is found to be only 18.96 crores. This last figure<sup>†</sup> has to be reduced further on account of the amount of silver rupees which came out of inactive holdings into circulation and which largely exceeded the amount of such rupees which came into the paper currency reserve. On this account a

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\* The figures are taken from Sir Basil Blackett's statement in an interview on 26th May, 1927. Reference might also be made with advantage to the Report of the Controller of the Currency for 1926-27 pp. 27-28 and for the year 1927-28, pp. 24-25.

further large reduction has to be made from the figure of 18.96 crores in order to get at the net contraction.

As regards this third or post-stabilisation period of deflation, it is a great mistake to believe that in the case of India alone continued stabilisation has required contraction of currency, or that in other countries the stabilisation has been effected at a stroke and no further measures of deflation have been found necessary. In all countries, a good deal of subsequent regulation of currency and credit has been found to be unavoidable. Indeed it could not well have been otherwise; for there were two important factors which necessitated such action. In the first place the adjustment of international prices had to be effectively secured; and further, we are in a period of slowly falling prices all the world over. Both factors rendered deflation inevit-



able and deflation has accordingly been carried out. But in other countries, the relative importance of credit is greater, and hence the object has been effected to a great extent by a manipulation of the discount rate and restriction of credit. Take for example the case of England. Both English and foreign writers have recognised that since 1925 "artificial" measures have been adopted in order to safeguard the stability of sterling. The Bank of England has repeatedly manipulated the discount rate and sold securities and, even so, voices have been raised for the direct reduction of the fiduciary issue. In other countries, too, the statistics of discount rates bear witness to the contraction of credit. Indeed, there are authorities who doubt whether British prices are not even now too high at least as compared to continental prices. In case of other countries also, like Belgium "the

readjustment has not yet been completed.”

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### THE TESTS OF UNDUE DEFLATION

The contention that there has been undue deflation should be judged and appraised in the light of the proper economic tests of such a policy. The steady return of silver rupees from hoards on a large scale for some years succeeding 1924-25 rather shows that such deflation has been substantially counteracted. In the financing of our great staple crops there has been no difficulty, though there must necessarily have been considerable stringency had there been anything like excessive contraction. Then as regards bank rates, apart from certain temporary increases due to the financial strain originating from America, the discount rates of the years follow-

ing the adoption of the ratio compare quite satisfactorily with those of earlier years. It might be added that the effects of the American situation were not confined to any one country but caused an international trend towards higher rates of interest which has been quite general from South America on the one hand, through Europe and so on to Asia. Indeed a study of the history of bank rates in India and abroad might be recommended to the critics of deflation in India.

We might proceed to consider another test of undue deflation. Is it a fact that in India prices have fallen to a greater extent than in other countries? Such would have certainly been the case had there been such an excessive deflation as has been so often asserted. But the comparative statistics of prices tell a very different tale. Prices in India, are at least as

steady as in any other country and the tendency towards a decline of prices is if anything less noticeable in India than elsewhere.

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FOREIGN EXPERIENCE OF THE  
NECESSITY OF DEFLATION

The advantage of a timely deflation of the currency and the necessity of attempting a reduction of the war-inflation were best illustrated by the economic history of Japan after 1920. The recent work of Dr. Furuya on "Japan's Foreign Exchange" contains a valuable discussion on this topic. We learn from Dr. Furuya that the inflationist group was particularly strong in Japan and constituted the strength of the political party called the Seiyu-Kai which stood for encouragement of industries and trade by the extension of credit and cur-

rency. The fact that the post-war depression came earlier and was sharper in Japan than elsewhere is attributed by Dr. Furuya to the circumstance that the Japanese price level was kept so high. One ministry after another neglected the task of reducing the level of prices and confined their effort to pegging the exchanges and putting an embargo on gold. They satisfied their consciences by attributing the enhancement of prices to the world-wide movement. Such an obstinate policy which was resolved not to deflate in time was responsible, as that author says both for the unfavourable balances of trade and to a large extent for Japan's inability to maintain the market which she had opened up during the war. It was a great object lesson in the advantages of a timely and moderate deflation. It may be permissible to quote one relevant paragraph from Dr.

Furuya's learned and instructive work here :

“The blame, however, should not be borne by one Finance Minister but by his political party, the Seiyu-kai. For the Seiyu-kai always stood for “positive policy” which meant to encourage industries and trade by extending credits, floating-loans, and by passing various governmental measures of all sorts and undertakings. One natural result of such a policy was to swell the state expenditures thereby to enhance prices as already mentioned.

“Thus, when Japan needed an economic readjustment and deflation more than anything else after the War, what she got was the Seiyu-kai's “positive policy” which caused high prices, excess of imports, unfavourable exchanges, and finally exhaustion of gold funds abroad, as they began to peg exchanges in the early parts of

1921 and 1922 by selling gold funds abroad at the government's desired rates of exchange. It is thus known that the government's artificial pegging was an utter failure."

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#### ADJUSTMENT OF PRICES

We now approach the most important issue in the ratio controversy—that relating to the adjustment of prices to the ratio. On this point the statistics of prices and exchanges can be appealed to for a decisive and unambiguous verdict. We have to remember that after August, 1923, there had been no further deflation, and that the trade position in 1924-25 was normal.

The proof of the adjustment of the prices in India to the changes in the ratio is contained in paragraphs 183-187 of the Currency Commission Report, and it is clear and cogent

enough to bear summarising as regards its main contention, while it can be strengthened by fuller reference to the conditions and circumstances of the time. We note, in the first place, that the exchanges had been rising very slowly all along the years 1922, 1923 and through the early half of 1924. Meanwhile the prices might be said to have kept fairly steady, ranging from an annual average of 181 in 1921 to 180 in 1922, to 176 in 1923 and to 178 during the year 1924. Two reflections suggest themselves to us here. In the first place, as we have seen, the steadiness of prices shows that the much discussed deflation must have been of a very moderate character in order to result in such a steady price level. We can indeed go further and assert that it was very necessary in the interests of price stability. In the second place, the period of over three years stretching



from the middle of 1921 to the last quarter of 1924 might be said to be the required period of time-lag between the rising exchange and price movements. We note further that after August 1923 there was no further deflation of currency. However almost a year after the process of deflation had stopped, and just while the exchange was in the course of rising from 1s. 5d. (sterling) to 1s. 6d. (gold), we find a steep and violent fall of Indian prices which carried them from 181 the index number of prices corresponding to October 1924 to 157 in August 1925. Obviously, it is here that we can trace the action of the steadily rising exchange on the price level; for all factors which were likely to affect prices during the year were of a fairly normal character. The process of deflation had already been terminated full fifteen months ago. The trade position was good, but the

large exports were balanced by the "colossal imports of bullion." It was obvious, as the Commission pointed out, that the facts and figures of the period unmistakably proved a striking and considerable adjustment of prices to exchange. The central and undesirable fact of the period between July 1924 and June 1925 was thus a striking correlation between the rise of the exchange and the fall of prices.

An attempt has however, been made to explain this away by arguing that the fall in prices was the effect not of the rise of exchange but of the alleged fall of world prices. It is therefore necessary to examine this contention. From August 1924 to March 1925, for about six months, there was a considerable fall of prices in India; while in United States of America the prices kept rising till March 1925 and in England they kept rising until after December 1924. This

contrast in price movements it is very necessary to bear in mind for, without any question that fall of prices was due to the rise of the exchange in India. It was the exchange position in India which obviously lowered the price level in India even in spite of any sympathetic effect of high prices ruling abroad for some months more. The world fall of prices manifested itself only after the first quarter of 1925; for up to March 1925 prices were rising in U. S. A. In this later period the exchange was stabilised at 1s. 6d., and this factor as well as the reaction of the world prices on Indian prices worked in the same direction. But in view of what took place in the earlier period, there is no reason to ascribe the lion's share of the influence in lowering Indian prices to the latter.

Our conclusion on this point can only be that the fall of prices in India

upto March 1925 must be ascribed wholly to the exchange adjustment, and not to any sympathetic action of foreign prices; rather it came about in spite of the general and high trend of world prices. After March 1925, no doubt, the beginning of the tendency to the decline of world prices needs to be taken into account; but even when dealing with this later period it is well to remember—for one thing—that by that time India had passed through a very large part of her fall of price level; and, in the second place, that this fall in prices in countries like the United States of America was smaller than in India. Obviously, it is impossible to attribute the earlier and the major phenomenon to “the sympathetic effect” of the later and the minor one.

Attention might be drawn in this connection to an excellent study of post-war price movements by Prof. L.

D. Edie of the University of Chicago which has been published recently. He observes that "between the first quarter of 1925 and the middle of 1927 wholesale prices fell, according to various indexes, from 11 to 15 per cent. During the same period, a world wide decline of wholesale prices was under way. In England, this decline was about 17 per cent., and in fourteen leading countries having a gold basis, the average decline was about 12 per cent. The United States set the pace, all other countries had to adjust their gold values to hers. This meant either inflation in United States or deflation outside the United States. Europe hoped for the former, but finally had to face the latter. The outside world was forced to cut under our prices enough to ward off unfavourable trade balances, support foreign exchange rates, and build up credits abroad wherewith to meet inter-

national debts.”\* The above extract will show that in the opinion of a foreign authority on monetary matters the decline of world prices began after the first quarter of the year 1925, *i.e.* several months after the fall of prices in India under the influence of the ratio.

The Commission could naturally discuss the progress of adjustment of prices only up to February 1926. But in the light of later events, the further adjustment of prices to the ratio is rendered very clear. A reference must be made to the table of prices and ratios which has been used by the authors of the Report, which has been quoted and accepted in the dissenting Minutes, and which was expanded and utilised again by Sir Basil Blackett. Bringing the table down to

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\* Prof. L. Edie, "Post-war fluctuations in wholesale commodity prices," *Quarterly Journal of Economics*, March, 1928.

May 1926, *i.e.* a little before the commission signed its report, Sir Basil was able to demonstrate the existence of a fairly close adjustment. He put the matter in a nutshell thus :—

		Gold parity of rupee.	U. S. A. prices.	Calcutta rupee prices.
December 1922	...	95	156	176
May 1926	...	112	152	150

It was shown on the basis of these figures that the rise in the gold parity of the rupee during the period was accompanied by a very considerable fall in the rupee prices in India, even when allowance is made for any possible sympathetic action of the fall in gold prices abroad.

A comparative study of international prices since 1926 will reinforce our conclusions as regards the adjustment of prices to the ratio. While the course of prices in India has been generally parallel to the movement of prices in the great com-

mercial countries, the fluctuations in the former have been far fewer.

Year	U.K. (Economist)	United States (Bureau of Labour)	India (Official)
1913	100	100	100
1920	283·2	226·2	201
1921	181·0	146·9	178
1922	159·9	148·8	176
1923	162·1	153·7	172
1924	173·9	149·7	173
1925	166·5	158·7	159
1926	152·8	151·1	148
1927	147·9	.....	148
1928	.....	.....	145

From these figures the comparative stability of Indian prices is obvious; and it might be noted that the course of prices in India shows a steady and gentle downward tendency which might be contrasted with the up and down fluctuations in the prices of the other countries. For this comparative stability of prices we are indebted to two factors—the moderate and gradual character of our deflation and the policy of mobility of exchange followed up to the year 1925. The steadiness of Indian prices fol-



lowing the years of deflation—1920-21 and 1923 is noteworthy. At any rate it cannot be inferred from the history of our prices that the deflation in either of these years was any thing but moderate. The fall of prices in the year 1924-25 was due mainly to their adjustment to the ratio.

Such an exceptionally smooth movement and trend of prices and the general correspondence with the slightly downward direction of prices abroad would have been impossible with a ratio which had been ill-adjusted to domestic prices. As we shall see later the adjustment of the general level of prices for imported articles and that for our exports as well as the gradual but sure contraction of the gap between the two sets of prices are also to the credit of a ratio which permits of a continuous and smooth correspondence of relative prices.

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## AGRICULTURE &amp; THE RATIO.

In the dissenting minute apprehensions were expressed as regards the possible disastrous influence of the ratio on the interests of Indian agriculture, trade and industry. We are now in a suitable position in the light of events of judging the value of such prognostications. Considering the position of agriculture first, we find an entire absence of any possible harm wrought by the ratio. Before coming to study the very limited range of the influence of the exchange factor on the fortunes of the agriculturist in India, we might profitably advert to some much more important world factors which have been affecting agriculture in recent years. We shall find much to learn from the consideration of this broader point of view. It has been observed that in all countries "after a period of war, farm products seem to suffer in

a greater degree from the post-war correction of prices. Naturally, as essentials their production has been stimulated during the war, either by bonuses or by price fixing or by the natural advance of prices, and there is a greater inelasticity in the correction of them." That dictum of Prof. Hollander summarises the post-war experience of agriculture almost all over the world. It must be remembered that the rise of the prices of farm products was both in India and in many other countries, generally speaking, a continuation of the slower rise of prices since the late nineties. However, after 1920 America and Europe saw a cataclysmic fall of agricultural prices. The Indian agriculturist was lucky compared to others, since the fall of prices in India was comparatively small and for him the fall was broken by a sequence of four good monsoons. Nevertheless even in

India the level of food grain prices fell temporarily below that of general prices a little later. It is this relative fall of agricultural prices which has caused such a depression in the world's agriculture. It might be noted further that factors like exchange are in no way responsible for this alteration of relative prices to the disadvantage of agriculturist.

We observe further that since the year 1924 (when the ratio of 1s. 6d. was reached) the relative prices have taken a turn in India favourable to the agriculturist. Looking to the statistics of agricultural prices, we find that the Indian agriculturist has even gained ground on the manufacturer in this respect. On the one hand, the general price level has been falling slightly in India since the year 1924; on the other hand as the index number of food grains shows, during the same period, the prices of these

most important agricultural products have risen substantially. Since it is the food grains which are of supreme importance to the Indian farmer, we see that the agriculturist has gained considerably by the relative price changes since 1924 when the present rate of exchange was reached. That the Indian agriculturist has done well since the year 1924, as regards food grains which are his chief products, can also be seen from the following figures :

Period.	Cereals.	Pulses.	Cotton manu- factures.	Metals.	Other raw and manu- factured articles.
1914 (July)	100	100	100	100	100
1915	115	122	97	120	128
1916	106	107	134	186	155
1917	92	96	203	266	183
1918	110	119	298	301	184
1919	163	180	295	236	192
1920	154	166	325	238	231
1921	145	160	280	237	242
1922	137	152	239	175	235
1923	114	112	221	165	207
1924	123	114	229	162	193
1925	136	128	210	131	165
1926	140	149	173	140	141
1927	139	155	159	133	151
1928	133	157	159	125	138

The following observations suggest themselves on a study of these figures, which are of importance both as regards any possible influence of the new ratio on the fortunes of the Indian agriculturist and as regards the condition of the Indian agriculturist during the post-war epoch as compared with that of the agriculturist in other countries. In the first place, we note that the reaction to the inflated war-period prices of agricultural products was, in the case of India, later and less marked than elsewhere. Thus, in the United States, the agricultural prices collapsed in 1920; and it is worth noting that the prices of farm products "fall first, hardest and farthest." Those who desire further information on the subject might be referred to a valuable article by Mr. A. B. Genung of Cornell University on "the Purchasing Power of the Farmer's dollar" in

the Annals of the American Academy of Political and Social Sciences. In India, the fall of agricultural prices was slower and smaller, and became pronounced in 1923. It is further to be noted that in spite of the exaggerations about the deflation in India, the prices of other commodities had not fallen much by that date. Hence we can well call the year 1923, the *nadir* of the fortunes of the Indian agriculturist, since the prices of the main farm products had fallen as far as they were going to during the post-war decennium, while the prices of the commodities which the farmer has to purchase had as yet fallen but little. As Mr. H. A. F. Lindsay has observed in an admirable article on "India's return to normal," so far as the Indian agriculturist is concerned "1923 was his worst year, when the discrepancy between the two (sets of prices) was most marked."

The next thing to be emphasised is that since the year 1923 the Indian agriculturist has been recovering the ground that he had lost. It is of course a coincidence that the Rupee exchange has been also rising from the same date; but it is obvious that the rising exchange and its stabilisation at 1s. 6d. have in no way prejudiced the farmer. For on the one hand the prices of the most important farm products have gone on rising, while, on the other hand, the prices of other commodities which the Indian agriculturist consumes have fallen. It is not for the Indian agriculturist to complain of such a reversal of the course of relative prices to his advantage; nor does he. For since 1923 the prices of cereals have risen by 25 points and those of pulses by 43 points, while he has been gaining considerably on the prices of the commodities which he has to buy.



No better illustration can be brought forward of the crudity of the assertion that the new ratio is going to ruin the farmer.

The fact is that the influence of the change of ratio on the fortunes of the agriculturist is small and indirect compared to that of other greater factors like the cycle of seasons and alterations in the relative prices of agricultural and other products. In the recent ratio controversy, the losses of the cultivators from the rise of the ratio to 1s. 6d. have been placed at fabulous sums which shake rather than support the argument based on them. The change of ratio is alleged by one controversialist to have caused a loss of a hundred crores a year to the Indian agriculturist, while others increase the alleged burden to 200 crores of rupees and even to 250 crores. To complete the tale of wrong, it is added that the agriculturist has lost a

few hundred crores more by the fall in the prices of silver which is alleged to be a result of the alteration in our exchange. The resources of our agriculturists must be unlimited, indeed, to have been able to stand all these alleged burdens. Those who made such allegations forgot the adjustment of the prices of the articles purchased by the agriculturists. They also forgot that had the Indian agriculturist been labouring under burdens in any degree approaching those alleged, unmistakable testimony would be borne to the supposed facts not only by statistics of forfeited mortgages, evictions, default in revenue payments and of rise of interests rates but by agrarian disturbances and agricultural conditions in general.

Not only are there no signs of any agricultural troubles such as were both predicated and prophesied, but the verdict of Co-operative statistics

can be appealed to in order to demonstrate that under the new ratio, agriculture has been as flourishing as it was under the former ratio. There can be no sort of doubt that the Co-operative agricultural societies, being scattered fairly evenly all over the country, can be taken as representative of the general agricultural conditions. The statistics of such societies are therefore specially useful for testing the conditions of agriculture in general, supplemented as they are by journals edited by numerous and able non-official workers in the co-operative sphere. Now, if the alleged great increase of the burden of the agricultural debt and the material reduction of cultivators' income had been positive facts we would expect to find the following symptoms among others of the disorder: (*a*) the growth of the capital and deposits of the rural societies would have been checked;

(b) the proportion of arrears to outstandings would have increased largely; (c) loans for unproductive purposes, like repayment of debts would have increased materially; (d) the rate of interest on loans would have gone up. As a matter of fact the Co-operative Statistics of the years following 1923-24 show no such adverse symptoms but tell a tale of continued prosperity. They point to a rapid increase not only of the number of societies but of deposits, as well as average capital and general resources. The figures of overdues and arrears show improvement if anything. Nor do we trace any rise either of the interest rates or of unproductive loans. Nor, among the numerous articles contributed by officials and non-officials to the various co-operative journals of India can one find any mention of unfavourable agricultural conditions. Surely, if

Indian agriculture was adversely affected by general factors of currency and exchange, it is not possible that the co-operative section would have alone passed unscathed and even prospered. The matter might be made clearer by a reference to some statistics of agricultural co-operation in India.

Attention might be drawn to the following figures relating to the progress of agricultural societies which show a steady increase of prosperity and resources :

	1923-24	1924-25	1925-26
Total number of Societies ...	54,203	63,873	70,733
Members ...	1,768,220	2,025,058	2,321,959
Share Capital paid up ...	1,85,60,217	2,29,37,715	2,71,79,322
Working Capital	16,55,06,771	19,60,72,982	22,93,46,496
Reserve Fund ...	2,36,54,646	2,88,80,807	3,36,22,092
Profit ...	59,50,643	72,43,475	82,99,708
		1926-27	1927-28
Total number of Societies ...	...	78,538	84,559
Members ...	...	2,615,792	2,870,575
Share Capital paid up ...	...	3,15,12,456	3,60,72,246
Working Capital	...	26,96,00,131	30,09,41,833
Reserve Fund ...	...	3,92,71,284	4,57,66,332
Profit ...	...	94,73,140	1,05,45,785

Some useful inferences can be drawn from the above figures. In the first place, the progress is distributed fairly evenly over the series of years and shows no falling off at any point. We note also the very large increase both in the working capital and what is more, in the share capital paid up. This last factor forms a valuable index of the prosperity of the agriculturist as well as of his power of saving. Even more interesting is the fact that the percentage increase of capital resources and profit is greater than the increase in number of societies and members.

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#### FOREIGN TRADE AND THE RATIO.

There are at least three aspects of the fortunes of Indian foreign trade under the *regime* of the new ratio which deserve careful examination.

In the first place attention might well be directed to the relative movements of the volumes and prices of our export and import trades. We might then observe the course of our balances of trade. Lastly we might consider the fluctuations of some of our leading exports and imports.

I. Coming to deal with the adjustment of the relative volumes and values of our export and import trade we notice that within a quinquennium of the attainment of the new ratio the volume of imports and exports have all but attained their pre-war normal. The course of trade has been well illustrated by the following figures in the Review of Trade of India for 1928-29.

	1913-14	1920-21	1921-22	1922-23	1923-24
Imports ...	183	142	124	138	120
Exports ...	244	172	182	214	240
Total trade in merchandise, excluding re- exports ...	427	314	306	352	360

		1924-25	1925-26	1926-27	1927-28	1928-29
Imports	...	137	143	156	181	190
Exports	...	250	246	228	248	260
Total trade in merchandise, excluding re- exports	...	387	389	384	429	450

The reversion to the pre-war and normal relations of the export and import trades is here strikingly brought out. The import trade had reached its last minimum in 1923-24 and by the time the 1s. 6d. ratio was established in 1926 it had proceeded very materially towards its recovery to the pre-war level. Nor has its further recovery been artificially hastened by the new ratio, for the rate of progress of imports remained much the same before as after the advent of the new ratio. There is thus no tangible evidence of any particular bounty to imports. For, while at the present day the volume both of imports and exports is above the pre-war figure it is the export



figure which rose in 1927-28 above the figure for 1913-14 and further in 1928-29 at the values of 1913-14 it rose far higher above the latter figure itself. Consequently there is no ground for the idea that the new ratio has kept back our exports. The Review remarks very properly that "the trade figures of the year 1928-29, as calculated on the basis of the declared value of 1913-14, *are a record for both imports and exports. Imports at the values of 1913-14 in 1928-29 surpassed the figure for 1913-14. Similarly exports surpassed the pre-war figure as well as the record figure of 1924-25.* The total trade in merchandise, excluding re-exports was the highest on record." This is surely the *reductio ad absurdum* of the contention that the new ratio has been encouraging imports and hampering our exports.

We shall proceed now to emphasise another equally important point—the

adjustment of the general level of prices for the exported and imported articles. It is obvious that a true adjustment of the relative values of our imports and exports is essential for a stable and sound position of our foreign trade. The figures illustrating this process of adjustment are again borrowed from the last Review of Trade :

		1913-14	1920-21	1921-22	1922-23	1923-24
Imports	...	100	237	214	169	190
Exports	...	100	140	127	140	145
		1924-25	1925-26	1926-27	1927-28	1928-29
Imports	...	180	158	148	136	133
Exports	...	154	152	132	130	127

The Review states that "the margin between the import and export prices was identical with the previous year's. Prices of imports and exports declined by about three points each as compared with the preceding year." Such a harmonious movement of export and import prices speaks well for the conditions under which the move-

ments took place. But the matter admits of further consideration and development. If we compare the movements of import and export prices since 1925-26 (the year of the introduction of the 1s. 6d. ratio) we find that the general level of articles *both of export and import has fallen by twenty-five points*. Such a full and exact adjustment of the level of export and import prices indicates a rapid return to the normalcy of economic position of the country. It can be reasonably inferred that the ratio which permits of such smooth and rapid adjustments must be a ratio well adjusted to the economic situation.

It might be added that the problem of the relative volume and values of imports and exports is a far wider problem than that of the ratio and involves a consideration of many other important factors. For one thing, the

fact that the decline of prices has been somewhat greater in certain European countries than in India has by itself a tendency to stimulate our imports. Then again, export prices in several countries have been artificially lowered to meet the conditions of industrial and trade depression. All these factors might be expected to lead to an increase of our imports of manufactures. Under such circumstances, if our exchange ratio, had been fixed too high, as has been contended, India would have seen a phenomenal increase of imports. As a matter of fact, however, no such result has followed and this must allay any suspicion regarding our exchange ratio.

II. The statistics of the balances of trade of our country since the inauguration of the new ratio are also of a very satisfactory character. This will be made clear by the figures.

Thus the balance of trade in merchandise was in favour of India to the extent of Rs. 86 crores in 1928-29, as compared with Rs. 82 crores in 1927-28 and Rs. 79 crores in 1926-27. This compares favourably with the pre-war average of 78 crores and the war average of 76 crores. The critics of the new ratio argue fallaciously by taking the figures of the record year 1925-26 as their starting point and in professing to regard the figure of the visible balance of trade for that year as the normal one. So far however was the record of that particular year from being a normal one that its visible balance of trade was far more than double the pre-war average. Indeed the figures of the excess of the *values* of exports for that year are unique in the economic history of India. On the other hand the figures for the year 1928-29 form another sort of record when the total *volume*

of import and export trade stand unapproached in the economic history of the country. And the latter record is of a more desirable character of the two since it argues a harmonious and *pari passu* development of both branches of our trade—especially as the *volume, even of the export trade when calculated on the basis of the values of 1913-14 was certainly larger in 1928-29 than that attained either in 1924-25 or 1925-26*. As Taussig has observed: “Let us not fall, as involuntarily we do, into the deceitful belief, or perhaps the flattering unctiousness, that the sending of goods abroad is in itself a thing which brings money into the country and thereby makes us all more prosperous. Let us hold fast to the fundamental principle that the exports are the means of producing the imports, and that only if there be real effectiveness, real success in the application of

our labour and capital, does the country gain." But even the most captious critic of the currency policy of India cannot be dissatisfied when, under it, not only imports but exports make unprecedented records.

In the present controversy much has been made of the fact that in 1924-25 the imports of gold were exceptionally large and have not been maintained at that level, and it has been inferred from it that the purchasing power of important classes in the country has been reduced. The answer might be suggested that the imports of gold in 1924-25 were exceptional and were "due mainly to the large fall in the price consequent upon the rise in the gold value of the rupee and the possibility that this drop in price would be temporary." Allowance has also to be made for growth of the habit of foreign investment in India. Thus even a critic of the new

ratio admits that of late "crores of rupees have gone abroad and crores more will follow." It is further only to be expected that if the country buys in any particular year twice or thrice the normal amount of the precious metals, the demand must be temporarily satiated and must fall off to some extent in subsequent years. Imports of gold are influenced by quite a number of causes among which the ratio occupies quite a minor place. Among these factors might be mentioned the present scramble for gold between a great number of countries, the embargo on the export of gold in many countries, the policies of central banks and the course of international loans. In fact the present situation as regards the international distribution of gold is quite an abnormal one. Again if we take the imports of gold and silver together, the average im-



ports since the introduction of the new ratio are quite comparable with the pre-war average. They appear small only when they are compared to the two record years for the import of precious metals viz : 1924-25 and 1925-26 which of course, stand by themselves. Finally, the diversion of the purchasing power from the precious metals to other commodities argues no general reduction of that power. At any rate those who regret the growth of imports cannot also complain of the reduction of the purchasing power of the people.

III. The most important aspect of any study of the course of our foreign trade must consist of an examination of the fluctuations of the main staples of our exports and imports. Among our competitive exports we shall study first the exports of that industry which has complained most of the new ratio. We find that right

upto the year 1926-27 the exports of Indian piece-goods went on growing very steadily and that the exports of that year formed our high water-mark in that line. It is only with the approach of the period of the present labour troubles in that industry that these exports decline. A contributory cause of this decline has also been referred to in the last Review of Trade. "As in the previous year the declared values of exported piece goods were higher than those of imported piece-goods and this indicates the principal cause of the retrogression of Indian piece-goods trade in overseas markets." No change of ratio can possibly remedy these two causes of the decline in this line.

Coming to another head of exports, since the year 1924 the total exports of hides and skins have gone on making steady progress throughout the last quinquennium. Our exports of

tea can be shown to present an equally satisfactory condition—rising from 340 million lbs. in 1924-25 to 359 millions in 1928-29. It is even more significant that our total exports of oilseeds which amounted to 1,250,000 tons even in the record year 1925-26 have grown to 1,328,000 tons by 1928-29. And that in spite of constantly increasing competition from abroad as well as the growing local consumption which is out-bidding foreign demand.

Even now there are not wanting critics of the ratio who repeat the old fallacy that a high exchange is good for the foreign trade of a country. Such critics ignore the distinction between a *falling* exchange and a *low* exchange, while a falling exchange might help exports a low exchange has no such tendency, for an adjustment of costs and prices to the new ratio is inevitable. A study of post-war balances of trade proves the truth

of this proposition and might be recommended to the advocates of a low exchange. The case of France is particularly in point, as many of our advocates of 1s. 4d. ratio have envied France its great fall of exchange. The fact is that while the falling exchange helped the exports of France and contributed to secure the large favourable balances of the years 1926 and 1927, the very low exchange at which stabilisation was effected had no such effect. For the adjustment of prices to the new ratio took places quickly, and the year 1928 (the very year of stabilisation) saw a return of the unfavourable balance of trade in spite of the heavy devalorisation.

There are not however lacking signs that even the critics of the 1s. 6d. ratio have at last seen that it is in vain to appeal against it to the figures of the foreign trade of India. Thus in the

“Capital” of 20th September 1928, Sir Purshotamdas Thakurdas had argued that “the ratio had had an adverse effect on the trade of the country.” But speaking before the Legislative Assembly on the 4th March 1929—that is, only six months after, he observed as follows:—“*It is not much good quoting to us figures of foreign trade and railway returns..... The holding capacity of the cultivators of India is proverbially small. The railway returns can therefore not show a falling off. If industries in India have not been encouraged by an active policy of protection, is there any wonder that your foreign trade returns have kept up with normal years?..... Why go only on the foreign trade and the railway returns? The crops if grown, whatever the price may be have to move.*” Here is at last a full and frank admission that the ratio has had no adverse effect whatever upon

our foreign trade. Coming from the author of the Minute of dissent such an open and ingenuous admission is to be specially valued. There are however one or two oversights in it. It is not merely the volume of imports that has attained its tallest record by 1928-29 but also that of the exports. Hence the reference to protection is redundant. Further it is not a fact, as suggested in the speech, that the Indian agriculturist has had to sell his produce at low prices. Taking together the prices of cereals and pulses (in which our agriculturist is mainly interested) a record of high agricultural price was reached by the latter part of the year 1928.

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#### THE RATIO AND INDUSTRIES

The four years that have elapsed since the inauguration of the new ratio

have naturally cleared many of the issues in our currency controversy. For one thing it is now evident that the position of the Indian agriculturist has in no way been adversely affected. Nor, as we have just seen, are the figures of our foreign trade such as to shake our confidence in the ratio. There remains only the argument that the industries of the country are depressed on account of the ratio. In considering this aspect of the controversy attention might well be directed in the main to the piece-goods industry which is alleged to have suffered most grievously owing to the ratio. It is one of the representative industries of the country and has a high claim to the anxious solicitude of all Indians. If, indeed, the depressed condition of this industry is in any tangible measure due to the ratio there is a heavy count against the currency policy.

In studying the affairs of the industry the verdicts of two economic and technical inquiries which have been recently conducted with regard to it are entitled to due consideration. Thus, before the Indian Tariff Board Sir P. Thakurdas, the late Mr. B. F. Madon and others strongly advocated the view that the depression in the industry was due to the factor of exchange. As Mr. Madon put it "the real difficulty is the twisting up of costs and charges through exchange manipulation," Sir Purshotamdas also gave to "the mismanagement of the Indian currency" the foremost place among the factors of depression special to India. After a searching inquiry, however, the Cotton Tariff Board arrived at the conclusion that the stabilisation of the rupee at 1s. 6d. was only "a temporary handicap imposed on the industry." That its importance was but small might be



inferred from the Cotton Board's dictum that they "should have had considerable hesitation in proposing an increase of import duty on this ground alone"—even "a small increase, all-round increase", be it noted. The additional protection proposed by the Cotton Tariff Board was based on the ground of unfair competition from Japan and was "justified for such period as the labour conditions in Japan continue inferior to those in India."

The other inquiry has been conducted by Mr. G. S. Hardy (Collector of Customs, Calcutta) in the year 1929. He shows by a consideration of the statistics of the industry, how little of its troubles can be justly attributed to the 1s. 6d. ratio. The following extract from his report will make the matter clear. "While the Bombay millowners have insisently attributed a large part of their troubles to the

fixation of the rupee at 1s. 6d. it is significant that whereas their gross output remained stationary during the three years 1921-22 to 1923-24 in which the rupee was pursuing a fluctuating but upward course, their output again began to rise steadily as soon as exchange was settled in the neighbourhood of 1s. 6d. In fact while the output of the Bombay mills rose from 856 milyards in 1923-24 to 1135 in 1926-27 and fell, owing to labour troubles to 1131 and 537 in the next two years, the output of other Indian mills rose from 847 milyards in 1923-24 to no less than 1356 milyards in 1928-29, an increase of 60 per cent. in 5 years." He adds that "under almost every head there has been steady progress upto the year 1927-28."

Mr. Hardy's view is supported by the figures for the exports of piece-goods from India which continued to increase after the introduction of the

new ratio. The chief factor in their recent decline consists of the higher prices of our exports. Mr. Hardy has also shown that the severity of external competition has very recently increased in a few well defined classes of grey and coloured goods coming from a particular country or countries. Had the severity of competition been due to a perfectly general cause like the currency policy or the ratio, the increased competition would have been felt over piece-goods generally and would not have been confined to a few particular classes of piece-goods like grey shirtings, printed drills and woven twills from Japan and printed flannelles and twills from Italy. As Mr. Hardy remarks, "imports of these have quite recently increased very rapidly and the prices at which they are sold are surprisingly low." Any adverse effects from the ratio or the currency policy cannot possibly con-

concentrate themselves on a few isolated groups of piece-goods. Take again the figures for imports into Bombay itself during the last few months. During the months of April to October (1929) the imports into Bombay of cotton grey piece-goods increased in value by 91.1/4 lakhs. But as Sir F. Sykes pointed out in his recent speech to the Chamber of Commerce this was more than counterbalanced by a much greater decrease in the arrival of white and coloured cotton piece-goods. Taking a wider view and looking at the general figures of such imports into India since 1924-25 we notice that there has been a decline in the imports of grey goods, a great increase in coloured goods and little change in the white trade. It would be very difficult to explain such varied phenomena in the light of the popular theory that the new ratio gives a bounty to imports in general. It is

also noteworthy that both in Ahmedabad and on the Madras side quite a number of new mills are under construction. The cotton mills of the Madras Presidency have again had a normal year.

The opinions held by representative mill-owners and experts regarding the influence of the ratio upon their industry will repay a careful study. Both Sir Victor Sassoon (in his evidence before the Royal Currency Commission) and Sir Purshotamdas Thakurdas (arguing before the Textile Tariff Board) have urged that the principal way in which the 1s. 6d. rupee hits the mill industry is by undermining the purchasing power of the agriculturists. But, as we have seen, the statistics both of agricultural prices and of imports lend no support to this view. The prices of the main products of Indian agriculture have been steadily rising, while the prices of

the articles which he largely consumes have been falling. It is obvious then that the purchasing power of agriculturists has been on the increase. This is supported also by the phenomenal increase of the output of Indian mills (outside Bombay) by no less than 60 per cent. in the five years ending in 1928-29 as also by the course of piece-goods and other imports.

In the year 1925, Sir Victor Sassoon, representing the Bombay Millowners' Association informed the Royal Currency Commission that  $3\frac{1}{2}$  per cent represented the difference made to the textile industry by the rise of the ratio from 1s. 4d. to 1s. 6d. He observed as follows: "I have worked out the difference between the present 1s. 6d. rate and 1s. 4d. rate as a very little less than the excise. So to-day with the excise removed, all we are getting is, I think, a .03 per cent advantage over what we would have

had if the excise had been left on and we had our 1s. 4d. gold as we had last year". The obvious inference is that whatever adverse effect was supposed to have been produced by the rise to 1s. 6d. was substantially counteracted by the removal of the excise. The figures put forward by Sir Victor Sassoon regarding the maximum burden which could possibly have been imposed on the cotton industry by the new ratio were corroborated by the statement of another Bombay expert before the Currency Commission that there had been adjustment to the ratio regarding 67 per cent of the cost of production in that industry. For 60 per cent of its cost of production is the cost of cotton while another 7 per cent of its cost of production represents the cost of imported stores and machinery. When these views expressed before the Cur-

rency Commission by eminent experts like Sir V. Sassoon were put to the leading critics of the ratio before the Textile Tariff Board there was no attempt either to refute them or to put forward any other figures. So they might be expected still to hold the field.

But the truth is that the depression in our textile industry is due to a multiplicity of factors which have little to do with the exchange. It is a suicidal policy to harp on the ratio and to try to divert attention from the really important factors in the situation. Amongst these latter might be mentioned the growth of textile industries in Japan and other competing countries which are backed up by magnificent buying, selling and financial organizations. It is not merely that the manufacturing power of our competitors has increased during and since the war, but the whole organiza-



tion of their industries has been improved in every direction. The superior organizing power of the Japanese manufacturers is also seen in the various ways in which they have worked to offset the reduction of hours of labour and the prohibition of night-work for women and children. On this topic a reference might be invited to a valuable article by Orchard in the Political Science Quarterly for June 1929. On the other hand in India we have not overhauled our industrial organization in the line for many years. Then again it is quite likely that the world in general and India in particular has been witnessing for some years an over-production of coarse cloth, and this is supported by the growing manufacture of such cloth abroad as well as by the increase by mills out of Bombay of their output by nearly 60 per cent. in five years. Deprived of its yarn trade with China

our mills have to produce more and more coarse cloth and to force the sales of this increasing mass of production. Even when we come to apply protection as a remedy for this state of things it will have to be applied in the right direction and very tactfully. For protection is bound to raise the price of our cloth and hence to reduce sales in India. Abundant experience has shown how elastic the Indian demand for piece-goods is. Consequently the use of protection will by itself have no very great or lasting effect on the fortunes of the industry unless we have a simultaneous introduction of that "rationalisation of managing control" upon which Sir F. Sykes has recently laid so much stress. For more than a decade the cotton industry has been exhorted by its best well-wishers and advisers to overhaul its organisation and methods, and the

need for such a procedure is the more pressing now, since in the post-war epoch all our rivals from Lancashire to Japan have conducted great economy campaigns and have improved their organization and capitalization. That the chief rival of our cotton industry is fully alive to the need for constant improvement in organization is obvious. This is emphasised by Dr. Shuichi Harada in his recent work on "Labour conditions in Japan" that "the application of high-grade labour-saving devices, large scale production and the adoption of scientific management have achieved for the cotton industry the largest and the most representative place in Japan." Since the war there is proceeding a great race between industrial countries for improved organization and reduced costs of production; and we must join in it whether we would or no. It is no

good arguing as was done before the Cotton Tariff Board that no improvement in organisation is necessary in India for "our mills were able to do well in the pre-war days under similar conditions of organisation." For much water has run under the bridges since then, and great advances have been made in textile organization abroad.

In this connection a quotation might be permitted from a recent article of the leading daily of Western India which has shown itself to be a hearty sympathiser with as well as excellent adviser of our textile industry:—

"Cut your costs is the industrial slogan of the day, but costs must be cut not by the curtailment of wages but by better and more efficient output, selling and distribution. The lessons of the West cannot be ignored in this country, where an important

national manufacturing concern like the cotton textile industry is in the depths of depression. High import duties are merely a palliative destined to throw a burden on the consumer, who is ill able to bear it. While the Bombay mills deserve protection against the crippling competition of Japan, the interests of the public demand from the mill-owners an assurance that their costs have been cut to the bare minimum, that their management is efficient and their selling organisation effective; in short, that the principles of rationalisation are being applied to the industry."

But while good results can certainly be achieved by a judiciously directed policy of protection, there is nothing whatever to gain by an alteration of the ratio. Indeed, it is not difficult to show that a reversion to the former

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\* *The Times of India*, 23rd January, 1930.

ratio under the present circumstances is to be avoided in the very interests of industry in general and of the cotton industry in particular. Amidst the present tension between capital and labour such an alteration of the ratio would cast a new bone of contention between the parties and would bring about a fresh epidemic of strikes all over the country. In its present mood, labour is not at all likely to be content with its present wages when general prices rise  $12\frac{1}{2}$  per cent. as the result of the lowering of the exchange. Labour would in fact at once assume that profits of industry in general had arisen permanently by  $12\frac{1}{2}$  per cent. and would put in a claim for a similar rise of wages. It could quote our industrialists and critics of the ratio against themselves—and with perfect justification. They would be incessantly reminded that they had prophesied complete prosperity and large

profits for the industry, an immense increase in the purchasing power of the consumer and the removal of serious handicaps of the industry as the result of the change in the ratio. They would be held to all their promises, and labour would proceed to exact the full pound of flesh from them.

It is a mistake to think that it is only a period of falling prices which is favourable to epidemics of strikes. Those who believe this half-truth have not fully studied the history of strikes before the war. In a meritorious work on. "Monetary Stability" Mr. Bellerby has given a full statistical account of the course of strikes during period of rising prices. After a statistical correlation of strikes and rising prices he observes: "It is to be seen from the above figures that the period of trade boom and crisis about the year 1907 was accompanied by a pro-

nounced increase in the number of trade disputes. This increase was, however, of minor importance compared with the bigger swelling movement from 1911 to 1913—a period which followed a gradual rise of some 10 per cent. in the price level and the cost of living. From this it would seem at the outset that a long-period movement in the level of prices—no matter how gradual—is equally detrimental to industrial relations as the more brusque movement associated with the trade cycle.” He concludes by noting that “an upward trend of prices, by causing a corresponding increase in living expenses, leads inevitably to demands for higher wages, arising in circumstances which make for distrust and resentment rather than for amicable agreement. A serious outburst of industrial disputes almost invariably ensues.” The gain from the change in the ratio



would be a merely temporary matter until new adjustments are effected. But the expectations aroused from the step are so great that the rapid rise of money wages, which the raising of the ratio has helped to check for the time being, will be sure to resume its march and will inflict a new and permanent burden upon industry. The result of the recent Ahmedabad Mill dispute and the increase in wages awarded by the umpire in that affair should serve as a warning that labour is on the alert for any chances of increase in wages, and that it will make the most of a chance like the alteration of the ratio. Any gain to our industrialists from the change of the ratio is bound to be temporary and partial while the demand for the raising of wages will be a permanent and general one. The question has been often asked whether our wages have adjusted themselves to the

higher ratio. The best answer to that question will come when money wages resume their upward progress with a reversion to the former ratio.

In conclusion it might be pointed out that since the year 1925-26 Indian export and import trade has made new records, the internal price-level has been as steady as in any other country, while the tendency towards a return to normal conditions has manifested itself unmistakably in quite a number of directions. Among these might be mentioned the balances of trade, the relative prices of agricultural and other products and the adjustment of the general levels of the prices of imports and exports. In spite of these undeniable facts there is no end to the devising of new arguments against the ratio. For, as has been remarked in the latest text book of Indian Economics written by the well-known Indian professors Jathar

and Beri "the new ratio will be made answerable for every kind of misfortune and it bids fair to take its rank along with the drain theory as an all-sufficient explanation for every conceivable evil." In this spirit attempts have been made to hold the ratio responsible for the recent rise of the bank rate. If, however, the critics had studied the matter comprehensively and carefully, and had compared the money-rates in India with those prevailing in other leading countries since the year 1923 or 1924, they would have seen that there was no reason to suspect any special tendency towards the rise of such rates in the case of our country. And, as to the rise of the rates on certain occasions during the last year, they were a result of the growing monetary strain in the world. The financial strain was tremendous in all the leading countries. Several Euro-

pean central banks lost more gold from their reserves than they could really afford; quite a number of countries placed an embargo upon gold shipments to resist the drain of funds to America; and the rise of bank-rates was a world-wide phenomenon. The extraordinary drain of funds from all countries to America was exaggerated by the American policy of interning the gold as it arrived. Meanwhile for the rest of the great commercial countries the choice lay between either exporting gold or raising their bank-rate. Like other such nations India too made her choice and raised the bank rate. There is no denying that high bank rates are a burden to trade and industry. But the rise of the bank rates in India during the last twelve months was only a result of the general financial strain in the world, and it has no relevance whatever to

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the ratio question in India. Its only lesson for India is the necessity of establishing a Reserve Bank as soon as possible.

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## THE "REX"

# THE "REX"

A NEW MONEY TO  
UNIFY THE EMPIRE

BY

J. F. DARLING, C.B.E.

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# THE "REX"

## CHAPTER I

### INTRODUCTORY

THE world is suffering from lack of confidence in well-nigh everything except gold. But is it not passing strange that the British Empire, by far the largest producer of the metal for which the world is scrambling, should itself be so hard put to it to maintain its gold stocks and to achieve economic prosperity? Our mentors bring forward a hundred and one reasons for the period of adversity through which we are passing. Many of these reasons I do not dispute. But I believe one fundamental reason to lie in the absence of "rationalization" of the Empire's gold. Since the War the Empire has produced about 70 per cent. of the world's total new supplies of gold. The output from the Empire's mines now equals £60 millions per annum, and from 1919 to the end of 1929 no less than £600 millions has been produced. What a field for rationalization, accepting Mr. J. H. Thomas's definition of the hackneyed term—"that efficiency is the order of the day and waste is being eliminated"! It is not so much in the production of its gold as in its distribution that the most fruitful field for rationaliza-

tion lies. It is at the gold source, before the stream flows out into the world and gets dammed up in one country or another, that the Empire, if it chooses, can prevent waste and increase enormously the efficiency of the world's gold supply.

To effect rationalization on the scale contemplated in this pamphlet it is essential that there should be an Empire currency—or, more strictly, a monetary unit common to all parts of the Empire. And just because it was common to the whole Empire, it would be endowed with greater strength and prestige than the separate monetary units of the Empire possess. Judging by past experience, however, it is when one gets down to "brass tacks" that difficulties arise. The British Empire clings to its watertight compartments. Economically, the Empire is largely an abstraction; politically, there has undoubtedly been a strong centrifugal movement in recent years. Necessity, however, is the mother of invention, and this fact, together with the dynamic energy of Lord Beaverbrook, has now rendered the Empire, and especially the Home country, more receptive to new ideas for Imperial unity than at any time since the War.

If my readers will pardon a personal reference, I should like to go back some thirteen years, and recall briefly the efforts that have been made towards an Empire currency. To me it has been of much help, amidst many discouragements, that the suggestion for an Empire currency came to me from that great Imperialist and far-sighted statesman, the late Lord Milner. The suggestion was made in

the spring of 1917, soon after he had joined the War Cabinet. I was then General Manager of the London Joint Stock Bank, of which Lord Milner had been a Director before he took office. What he said was to this effect: "There is something I want you particularly to do. I believe it to be of the utmost importance for the future of the Empire that there should be an Empire currency. I have no time to go into the question fully at present, but will you think it out and let me have your views?"

I devoted a good deal of thought to the subject, and in December of 1917 produced for private circulation—"in the hope of receiving *constructive* criticism"—a little brochure entitled "Bank of the British Empire," containing the outline of a scheme on what might almost be called Imperial socialistic lines. The pivot round which the scheme revolved was the Empire's large production of gold, which was to be used as a basis for credit, whereby the Empire could be developed and the burden of its war debts alleviated. To quote from the pamphlet:—

"The British Empire produces annually £60,000,000 of gold, or about two-thirds of the world's production. The importance of this fact in the re-arrangement of our currency and banking systems, in the consolidation of our debt and in the development of the Empire cannot be over-estimated. We are in the unique position of being able to increase our gold reserves, and the credit that can be built upon them, without relying mainly on the balance of trade. But so great is the task ahead of us that it will be necessary to do everything possible to increase the production of gold and also to conserve its use as a credit basis. There may be difficulties in the way of making gold mining an Imperial

concern, for gold could then be produced even at a loss. But at any rate all the gold produced should go direct into the Bank's reserves."

The Bank was to be a Bank of the Empire in the literal sense of the term. To quote again from the pamphlet: "As one of its objects is to handle the Empire's war debt, each unit of the Empire would have a share in the Bank in proportion to its war debt outstanding at the conclusion of the War." The Bank was to be the sole issuer of currency notes in the Empire; it was to keep accounts for all banks in the Empire; it was to consolidate and handle the Empire's war debt, of which a portion was to be in the form of Empire Treasury bills; it was to discount Empire Treasury bills and make loans on the security of the war debt; and it was "to control the export of gold, of which it would be the sole custodian." In exercising this control "the importance of reducing the interest charge on our war debt and of providing fresh capital at a comparatively low rate is paramount." A minimum gold reserve of 40 per cent. against both currency and deposits was to be maintained, which, with a first call on all gold from the Empire's mines, was not incompatible with cheap money.

We have to remember that when these ideas were put forward we were still engaged in a life-and-death struggle, and in the spirit of that soul-stirring epoch it required no great stretch of imagination to look forward to a time when some at least of the walls between our water-tight compartments could be broken down, so that the Empire might act together

in a great reconstructive effort after the War. And the idea of mobilizing the gold of the Empire—the gold below the ground as well as the gold above the ground—seemed to me in those days, as it does to-day, to open up an avenue along which much could be accomplished. But while the effort was being made the resumption by London of its position as a free market for gold was to be deferred.

Shortly after the appearance of the pamphlet, Mr. Bonar Law, then Chancellor of the Exchequer, inquired whether I would submit the scheme to the Cunliffe Currency Committee. To this I respectfully demurred. What one was looking for at that time—and for that matter ever since—was not destructive criticism, but constructive help, which is much more difficult to obtain. And, quite frankly, I doubted whether the Cunliffe Committee possessed the necessary sympathetic breadth of view to help forward a scheme so radical in character. Nor did I then feel sufficiently sure of myself with regard to certain aspects of the scheme to submit to a fire of cross-examination.

Two years later, however, I was enabled to free myself from the more active responsibilities of banking, and since then have devoted a large portion of my time to thinking out ways whereby the financial and economic unity of the Empire might be furthered. In pursuit of this object, visits have been paid to Canada, South Africa, Australia and New Zealand. With India I had already some acquaintance, since eleven years of my earlier banking career were spent in that country. As this

period covered the closing of the Indian Mints to the free coinage of silver in 1893, and the financial disturbances which led up to and succeeded that event, the experience was sufficient to throw light on the problems of currency standards arising from the relationship between gold- and silver-using countries.

By 1923 the bank scheme of 1917, following the trend towards more localized central banking, had been whittled down to an issue of Empire Treasury bills, with a gold backing, convertible into the currencies of the participating countries. At the instigation of the New Zealand Government, this scheme was placed on the agenda of the Imperial Conference of that year. A sub-committee of the Conference was appointed, before whom I was cross-examined. But as the British Treasury and at least one of the Dominions were determinedly averse, not only to this, but to any scheme other than a simple return to the gold standard, the result was a foregone conclusion. The gold standard—assumed to be in its old form—was to provide the financial link between the countries of the Empire, but only in the same way as it was thought it would bind together the countries of the world.

What, then, is this post-war gold standard, from which so much was expected, but the vagaries of which have so perplexed and troubled us during the past five years? I confess I am quite unable to define it, though most people are conscious of its effects. In pre-war days the action of the gold standard was more or less intelligible. The country

exporting gold was supposed to become the better country to buy in, and the country receiving it to become the better country to sell in; and in this way its action on prices and on balances of payments tended to restore equilibrium. But have the enormous quantities of gold which the United States and France have received within recent years—much of it out of the Empire's mines—helped us in any way to sell our wares in these countries? The action of the post-war gold standard appears to have degenerated into a game of grab, wherein we have played our hand so badly that the British Empire—the largest producer of gold in the world—is reduced to picking up the crumbs of gold that fall from the rich man's table.

The post-war operations of the gold standard, and the efforts to return to it, have resulted recently in a catastrophic fall in world prices, with universal depression, which has affected Britain in marked degree. Our costs of production are out of equilibrium with selling values; and the burden of a colossal national debt has been doubled, through doubling the purchasing power of the units in which it was contracted.

In some quarters hope is now expressed that the Bank for International Settlements may be able to economise the world's supply of gold, equalize its distribution and act in a general stabilising manner on price levels and exchange rates. But the primary business of this institution is to help to carry out the non-economic—and it may be impossible—task of transferring £100 millions per annum from Ger-



many to her reparation creditors, Germany receiving nothing in exchange. But the United States and France, the two main ultimate recipients of Germany's payments, already possess between them roughly one-half of the monetary gold of the world, and, considering the magnitude and duration of the reparations and war debts payments, their stock of gold seems destined to be further augmented on this account alone. This result could be obviated if, through a change in their monetary and fiscal policies, the United States and France were to become relatively the better countries to sell in. But of this there are few, if any, signs. Under existing conditions, therefore, to delay action by relying on the Bank for International Settlements to effect a more equitable distribution of gold, seems to be a waste of time which the Empire in its present condition can ill afford.

Another vastly important point to remember is that international money-lending has assumed much greater proportions than in pre-war days. The term international money-lender includes here not merely those whose business it is to lend short-term money in international centres, but all British buyers and holders of foreign securities and all foreign buyers and holders of British securities. Before the War the movement of money from one centre to another, and the arbitrage transactions which took place in the comparatively few securities with an international market, performed quite a useful function. They tended to bridge over any hiatus between exports and imports, and they thus helped rather

than hindered trade. But now, as we have learned from the Wall Street boom, which resulted in a  $6\frac{1}{2}$  per cent. bank rate in Britain at a time of severe trade depression, the transactions of the international money-lender have become a menace to trade and industry. Having fixed a price for gold and established a gold psychology whereby a deviation from that price in any circumstances whatsoever would be regarded as a calamity and a gross breach of faith, we have allowed the international money-lender to dominate the situation. No matter what may be the state of our trade and industry, we may have to bribe him, so to speak, by a higher rate of interest to leave us any gold at all. This is the position—paradoxical in its weakness—at the centre of an Empire which is by far and away the largest producer of gold in the world.

Finally, in the awakening of Asia there looms ahead an event which some think may exceed even the Great War in importance. Through the association with India, the very existence of the British Empire is involved in the outcome of this development. The most far-reaching monetary problem that confronts the world to-day is whether Asia, in her awakening, is still to be driven to substitute gold for silver, not only as a monetary basis, but also for ornaments and as a store of value. As has been pointed out by the present Viceroy, since 1900 India alone has absorbed no less than £400 millions of gold and £350 millions of silver, but during the last seven years of this period—1922-29—the proportion has materially changed, the imports of gold

having been £178 millions against £90 millions of silver. If silver as a monetary metal is to be abandoned, as seems likely unless early and decisive steps are taken to rehabilitate it, the capacity of Asia to absorb gold is not unlikely to upset still further the economic equilibrium of the world.

The logical solution of Asia's monetary difficulties, and, indeed, of those of the world, is to rehabilitate silver. But not only is it the logical solution; it may well be asked whether there is not a moral issue involved, a wrong that requires to be put right? As the result of anti-silver legislation by the Western nations from 1873 onwards, silver has been so largely deprived of its monetary value that the Eastern nations are being forced to discard it. Germany, largely through her own action, inflated her mark out of existence. But the Chinese tael and the huge mass of silver held in China have lost a great part of their value through the legislative acts of other nations. Or again, the depreciation that has taken place in the silver ornaments of the women of India, costing hundreds of millions of pounds, and now of little realizable value, is the result of the demonetization of silver by the nations, led by Germany in 1873. Nor is England by any means free from responsibility, for in the heyday of her prosperity and the intoxication of her self-sufficiency she refused to join with other nations in 1878 to rehabilitate silver.

In consequence, silver, which until 1873 was worth about 6*d.* an ounce, now stands at about 16*d.* Even since we returned to the gold standard, in

1925, silver has fallen 50 per cent., and has lost one-third of its value during the past twelve months. In short, one-half of the globe has upset the economic equilibrium of the other half, and the economic and political effects of such a great upheaval are bound to react, as they are already reacting, upon the Western nations. If the wheel comes round the full circle—if, that is, the monetary value of silver disappears and it loses the quality of a "precious metal"—the Western nations must expect to feel these reactions even more acutely. Surely it is in the interests of both East and West that the wheel should be reversed through restoring the value of silver and establishing full confidence in its future. But I venture to urge that for the British Empire, with its vast interests in East and West, the matter is vital. As the argument develops, its importance to India cannot fail to be appreciated.

To the Asiatic as well as the other monetary problems herein enumerated the British Empire, as the largest producer of gold, holds the key, for she is in the position to control the flow of gold from its source. It is not necessary—indeed it might be politically dangerous—that this control should be used in arbitrary fashion. Its supreme object—the maintenance of equilibrium between gold and silver—can be achieved by simple automatic action. Has the time not come, not only in the interest of the Empire, but of the world, when this control should be exercised? The British Empire is in possession of a power which is capable of changing beneficially

the economic face of the globe, but is at present being dissipated.

The following pages set forth a scheme, complete in all essentials, by which this much-to-be-desired result can, I am confident, be assuredly achieved.

## CHAPTER II

### THE "REX"—A NEW MONEY FOR THE EMPIRE

IN suggesting a new money unit wherewith to unify the Empire, it is not necessary to consider the creation of either a new coin or a currency note which would pass current throughout the Empire. Britain, South Africa, Australia, New Zealand and the Irish Free State would still retain their pounds each, as, at present, a separate monetary unit; Canada would retain its dollar and India its rupee. In short, with the exception of the golden sovereign where it still circulates, existing currencies in the Empire would continue to function practically as they do now.

What is suggested is a new unit which would link up these various currencies by forming a common basis on which each would be issued. This new unit need not be composed of either gold or silver, nor yet of an amalgam of the two metals. It would be found to act more efficiently and economically simply as a "money of account," or, in other words, as the money in which a super-bank of the Empire would keep its accounts.

This super-bank could be called the "Bank of the Empire." Its customers would be few, but tremendously important. They would comprise the

Bank of England, the Government of India, the Canadian Government and the note-issuing banks of Canada, the Reserve Bank of South Africa, the Commonwealth Bank of Australia, the Bank of New Zealand and other note-issuing banks in that Dominion, and the Currency Commission of the Irish Free State. These are the primary issuers of currency in the various parts of the Empire. In each case—with the exception of India, where the reserve is largely silver—it is enacted by the respective Governments that a given proportion of gold or gold assets should be held against the currency issued. Legislation would therefore require to be passed by each of the Governments concerned permitting a balance with the Bank of the Empire to replace gold for all reserve requirements. That is to say, just as a London clearing bank regards its balance with the Bank of England as part of its cash reserve, so would the Bank of England itself regard its balance with the Bank of the Empire; and the same would apply to the other note-issuing banks and Governments.

A most appropriate name for this new Imperial money would be the "*Rex*." The *Rex* would be created for the exclusive use of the Bank of the Empire as the money in which it would keep its accounts.

The Bank of the Empire would be prepared to buy gold at a fixed *minimum* price, paying for it in *Rex* by crediting one or other of its few but important customers with the proceeds. It is suggested that this minimum price should be one *Rex* for 113

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grains of fine gold, which is the gold content of the sovereign. The sovereign—the symbol of the pre-war gold standard—would cease to be coined. In place of the right, in countries where such still exists, to take gold to the mint to be coined into sovereigns, there would be substituted the right, which would be extended to all parts of the Empire, to take gold to the Bank of the Empire to be paid for in Rex—that is to say, in a balance at the Bank of the Empire—at 113 grains of fine gold per Rex. The currency-issuing banks and Governments, being the only customers of the Bank of the Empire, would act as agents for the Bank in the purchase of gold, just as in pre-war days the Bank of England acted for the Royal Mint.

It is important, however, to note that it is the Rex, and not the gold, that would become the basis for the currencies of the Empire, and that the Rex would thus constitute a new standard of value. The full significance of these fundamental changes will be better appreciated at a later stage.



## CHAPTER III

### RATIONALIZATION OF THE EMPIRE'S GOLD

WE have now to consider how best to rationalize the Empire's gold so as to obtain the greatest measure of economy and efficiency in its use. The monetary stock of gold in the Empire, held by the banks and Governments enumerated in the preceding chapter, aggregates about £250 millions. This is small when compared with the £850 millions held by the Federal Reserve Banks and the Treasury of the United States, or the £380 millions held by the Bank of France. The great gold strength of the Empire, however, lies in its production, which for the past eleven years has averaged £54 millions per annum and has now reached £60 millions equal to 70 per cent. of the world's total output. There could be no stronger evidence of the need for rationalization than the fact that, notwithstanding its overwhelming strength in the production of a metal that is in universal demand, the Empire itself should so frequently run short. Setting aside academic gold standard theories—theories which do not accord with practice—it is clear that the Empire is not acting in a rational manner. In attempting to formulate a scheme for rationalizing our gold, let us therefore take a business view of the position.

The first step in its rationalization is obviously to place the gold supplies of the Empire under one authority. From the time the gold leaves the mines, or at least the refinery, until it passes from the confines of the Empire, there should be but one custodian, one buyer and one seller. The Bank of the Empire would clearly be the most suitable custodian and dealer. In view of the importance of its functions, and as the control of credit is not involved, the Bank of the Empire itself should belong to the respective Governments, under a pledge of unlimited liability. Thus the custody of the Empire's gold would become the responsibility not of one Government only but of all the Governments.

The next step is to decide where the Empire's gold is to be held. There should be at least one depository in each of the participating countries. The Bank of the Empire should therefore have an office not only in Pretoria and London—the one at the main gold source and the other at the principal gold market—but in convenient places in the Dominions and India as well.

The gold, valued at £250 millions, at present held by the Governments and banks before enumerated would be bought at the Bank of the Empire's minimum price of one Rex for 113 grains of fine gold. Thus in place of holding £250 millions of gold, they would hold Rex 250 millions in the form of balances at the Bank of the Empire. The respective Governments and banks would have no further direct concern with gold. The concern of each would be to maintain an adequate balance at the

Bank of the Empire as a reserve against its currency. The Bank of the Empire would be charged with the duty of maintaining an adequate stock of gold for the Empire as a whole.

We can now proceed to effect economies in the use of gold. An obvious economy would be the establishment of an Empire clearing. The Bank of the Empire would perform the same clearing functions for the Bank of England, for example, that the Bank of England itself performs for the London clearing banks. A settlement between London and, let us say, Australia would be effected by a simple transfer between the Bank of England and the Commonwealth Bank of Australia in the books of the Bank of the Empire. Although one account might be kept at the London office and the other at the Sydney office, the total of its customers' balances would show no change as the result of that transfer. Of course the Bank of the Empire would make a charge for this facility, which would be based on the cost of moving gold.

The Bank of the Empire would be able to move gold from one part of the Empire to another at a lower cost than anyone else. The costs of moving gold consist of freight, insurance, and interest while the metal is in transit. As the Bank of the Empire would not allow interest on its balances, and would be an entirely self-contained institution, its out-of-pocket costs in moving gold within the Empire would be freight and insurance only. The Bank of the Empire would hold separate stocks of gold at its various offices, and would thus be able to meet

demands out of stocks, replenishing one if need be by transfers from others at its own convenience.

The transfer tariff of the Bank of the Empire would supersede what are known as the "gold points" in the inter-Empire exchanges. This tariff, however, would take interest into account, thus leaving a profit to the Bank, a portion of which might perhaps be passed on to the Empire's gold producers. Thus the Bank of the Empire would be in a position to pay the gold producers slightly more than it would be profitable for anyone else to pay. This in itself would probably ensure that the gold produced in the Empire would go direct into the Bank's stock. But, as we are considering a complete scheme of rationalization of the Empire's gold, it would be as well to ensure this result by legislation.

We can now better appreciate the great strength of the Empire's gold position. The Bank of the Empire would begin business with a stock of Rex 250 millions of fine gold, while into its strong rooms there would pour direct from the Empire's mines no less than Rex 60 millions per annum on the present scale of production. Our weakness has been in selling our gold at a fixed price regardless of the demand, and no small share of the responsibility for the difficulties under which we are suffering to-day is due to this cause.

To continue to sell our gold in this way is the antithesis of Mr. J. H. Thomas's definition of rationalization—"that efficiency is the order of the day and waste is being eliminated." Hundreds of mil-

lions of pounds value of gold, much of it out of the Empire's mines, is being wasted through being dammed up in other countries instead of fertilizing the globe. According to the rules of the system, at least as understood in pre-war days, these countries should have become ere now the better countries to sell in, and thus their surplus gold would again have been exchanged for the goods and services of other countries. The post-war gold standard, however, does not appear to be subject to any generally accepted rules. Each country has become a law unto itself.

In order to rationalize our gold it is therefore essential that the Bank of the Empire should retain full control through reserving the right, under well-defined conditions, to raise its price for both selling and buying.

There would thus be placed in the hands of the Bank of the Empire an economic lever more powerful than any that exists at the present time. It has not been available hitherto purely through lack of organization. We have heard a good deal lately about the strength of the Empire—actual and potential—as an economic unit. It is as such that the Empire would act if its Bank decided to move this gold lever.

It is therefore important that the conditions leading to a movement of the lever should be clearly defined and understood by the nations of the world. The Empire should not raise its price for gold for purely selfish ends. It should not act in the matter as if it were a law unto itself. If, however, the

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Empire were to use its gold primarily for the supreme purpose of rehabilitating silver, its action would not only be politically unobjectionable, but would go a long way towards restoring economic equilibrium in a world that is badly out of balance.

## CHAPTER IV

### WHY SILVER HAS FALLEN

THE fall in the value of silver is entirely due to its having been deprived of its status as a monetary basis. We can better appreciate this fact if we consider that there is close on £2500 millions of monetary gold in the world, and ask ourselves what gold would be worth if nation after nation decided to use it no longer for monetary purposes and to dispose of its stocks. This is what has happened to silver, beginning with its demonetization by Germany in 1873.

For two-and-a-half centuries before 1873 the value of silver in relation to gold was comparatively stable, and from 1803 almost entirely so. Sir Isaac Newton, when Master of the Mint, tells us in his classic Report of 1717 that a pound weight of standard gold "is cut into 44½ guineas," and that a pound weight of standard silver "is cut into 62 shillings." "And according to this rate a pound weight of fine gold is worth 15 pounds weight, 6 ounces, 17 penny weight and 5 grains of fine silver re-coining a guinea at £1 1s. 6d. in silver money." Thus at the Mint gold was then fifteen and a half times more valuable than silver. The gold standard is a comparatively new institution. It was adopted

by England in 1816, and subsequently by some of her Colonies, but until 1873 the rest of the world used silver as a standard, either alone or in conjunction with gold, and its value approximated to the above ratio of  $15\frac{1}{2}$  to 1. Gold is now about fifty-eight times more valuable than silver. Yet only thirteen ounces of silver are produced for each ounce of gold. Germany, taking advantage of her indemnity of £200 millions from France, set up the gold standard in 1873. The Scandinavian countries and Holland, which also had silver currencies, followed. The United States, although nominally bi-metallic, in 1873 suspended the free coinage of silver and in effect adopted the gold standard, although for some time afterwards they continued to flirt with the white metal. Then in 1874 the bi-metallic Latin Union—consisting of France, Belgium, Switzerland and Italy—felt compelled to suspend the free coinage of silver, and the connecting link between the two metals was broken.

It was because of the depreciation of silver which followed the breaking of the bi-metallic tie that India was compelled to close her mints in 1893. She did so only after the most strenuous efforts to induce the nations to agree to rehabilitate silver. But England blocked the way. Indeed, at the Brussels Monetary Conference of 1878 the British Commissioners were permitted to attend provided only that the question to be submitted to the Conference was not an open one so far as England was concerned.

Including the Committee on whose Report the



Mints were closed, no fewer than five Commissions or Committees have sat at various times endeavouring to solve the Indian currency problem. The latest attempt was that of the Hilton Young Commission. The Report of this body, dated July 1926, said :

“ The people of India have from time immemorial placed their trust in silver as the medium of exchange and as their store of value. They are deeply interested in the value of silver bullion, and it is contrary to their interests to depreciate it. The present proposals (those of Indian Government officials) would inflict heavy losses on the poorer classes, who have put their savings in silver ornaments and who would find their stores of value depreciated by perhaps 50 per cent. by the action of the Government.”

The Indian Government officials' proposals, which the Commission thus criticised, included the “dethronement” of the silver rupee from full legal tender status and involved vast sales of silver. But the Commissioners' own recommendations contemplated an ultimate reduction of the silver in the currency note reserve to Rs. 250 millions. With a slightly reduced note circulation, the silver in the reserve has, however, increased since then by about one-third, and to carry out the above reduction would necessitate the sale or absorption of more than 300 million fine ounces of silver. *The Times* in its Annual Financial and Commercial Review for 1929 reports with regard to silver :

“ The greatest menace to the market last year, however, was the knowledge that a vast accumulation of silver treasure once held in the Indian note reserves,

awaited realisation at any favourable opportunity. To this circumstance the silver market owed the depression which prevailed throughout the year."

Even since the end of 1929 silver has suffered a further catastrophic fall equal to about one-third of its value.

As I ventured to point out at the time, the Commissioners' report was not logical, for it recommended a course of action that was most likely to bring about a result which it had itself deprecated. There would appear to be only one solution—namely the rehabilitation of silver, with a return to open mints for its coinage, when the silver value of the rupee would again be equal to its face value. It is not the "dethronement" but the full enthronement of the silver rupee, as the equal partner of gold, that is needed. This, however, could be accomplished only through the co-operation of the Empire.

## CHAPTER V

### THE NEW BI-METALLISM

THE first speech of the late Earl of (then Mr.) Balfour in the House of Commons was on bi-metallism. It is not so generally known that he retained his interest in the doctrine to the end, and some two or three years ago expressed himself privately to the effect that it would not be surprising if, after all, bi-metallism turned out to be a solution of many of our difficulties.

In preparing this pamphlet I had recourse to Hansard in order to read Mr. Balfour's speech—delivered on August 10th, 1876. It was quite short. It deprecated raising the price of the rupee and making it "practically a metallic bank note of an appreciated value." Reading on, I extracted the following from a speech of Mr. Goschen in the same debate: "He would be a bold man who would withdraw silver from that partnership with gold, by means of which a sufficient supply [of currency] was furnished . . . for the whole globe." What these two eminent statesmen deprecated half a century ago has been brought about, with results already disastrous, and likely to become more so, unless effective and speedy action is taken to restore silver to its time-honoured position as the monetary partner of gold.

The old bi-metallic theory was based on the coinage of the two metals. It was thus concerned with a given *fixed* weight of gold and a given *fixed* weight of silver converted into coins, which thereupon became legal tender, precisely on the same legal footing, so that a debtor had the option to pay his debts in either of the two metals. On any material difference arising between the bullion value and the face value, debts would be paid in the cheaper metal, and under the operation of Gresham's law, to the effect that bad money drives good money out of circulation, the relatively dearer metal would be exported and melted and exchanged for the cheaper. This, however, brought into play what was known as the compensatory action of the joint standard, whereby, as the one metal was thrown upon and the other withdrawn from the bullion market, the former tended to fall and the latter to rise, and thus to restore equilibrium. This very briefly was the theory, and, as we have seen, the relative values of the two metals remained remarkably steady for a very long period.

With the passing of the golden sovereign, a fixed weight of gold, and the substitution of the Rex as the standard by which gold itself is measured within the Empire, the situation is fundamentally changed. Gold in effect becomes a commodity for which; it is true, a minimum price of one Rex for 113 grains has been established, but for which no maximum price has been set. Therefore, the Bank of the Empire is free to sell 100 grains of gold, or any number of grains below 113, for one Rex. This

places the Bank in a tremendously strong position. Receiving 70 per cent. of the world's gold output direct from the mines, it can, in addition, reduce demand by raising its price and so protect its stock. The price can be raised at any time and before the Bank's stock of gold is seriously diminished. The Law of Gresham does not apply.

Let us now turn from the abstract to the concrete, and apply the new bi-metallism to the Empire through the Bank of the Empire undertaking to purchase silver as well as gold at a fixed minimum price.

The first question to decide is the ratio between the two metals, or the Bank's minimum price for silver. In deciding upon the ratio, India, with its silver rupee and vast interests in silver bullion, must form our main consideration. The old bi-metallic ratio of  $15\frac{1}{2}$  to 1, which would mean raising the exchange value of the rupee from 1s. 6d. to approximately 2s., can probably be ruled out. A much better case could be put forward for lowering the value of the rupee to 1s. 4d., at which it stood from the beginning of the century until the War. But for the argument in this pamphlet we may take the convenient ratio of 20 to 1. This would confer upon silver a value of about 51d. per fine ounce, or about 47d. per standard ounce, and on the rupee an exchange value of 1s.  $5\frac{1}{2}$ d., which approximates to its present value of 1s. 6d.

Under this ratio the Bank of the Empire would have a minimum price for silver which would be exactly one-twentieth of its minimum price for gold.

That is to say, its price would be the same for twenty ounces of fine silver as for one ounce of fine gold. As in the case of gold, the silver would be paid for by Rex—that is, by a credit to one or other of the Bank's customers. But here again it is the Rex thus created, and not the silver, that becomes a basis for the Empire's currency and credit. This basis can be transferred within the Empire without either gold or silver being moved. The latter can be undertaken at the Bank's convenience in its capacity as a buyer and seller of the two metals. Within the Empire it matters not whether the Rex has been created by gold or by silver.

The only monetary silver in the Empire that the Bank would require to take over is the stock held by the Government of India in its currency note reserve. At the Bank's minimum price—one-twentieth of its minimum price for gold—this would require approximately Rex 87 millions, with which the Government of India would be credited.

Thus the Bank of the Empire, which, it will be remembered, has already paid Rex 250 millions for gold taken over, would pay a further Rex 87 millions for silver, and the banks and Governments that are issuers of currency in the Empire would hold balances with the Bank aggregating Rex 337 millions. These balances, whether originating from a purchase of gold or a purchase of silver, would be absolutely uniform in value, as well as extremely mobile, for they would be transferable by cable to any point within the Empire where the Bank had an office, at a published tariff of transfer charges.

The Bank of the Empire would begin business with a relatively strong gold position. With only Rex 87 millions of silver, it would hold Rex 250 millions of gold, while there would be flowing into its strong rooms Rex 60 millions of gold per annum from the Empire's mines. These figures, be it remembered, are taken at the 20 to 1 ratio. It is true that the Bank would be open to receive the surplus silver of the world. But the value at the above ratio of the world's total silver production is Rex 54 millions, some two-thirds of which is a by-product of the base metals, and therefore not materially affected by price. As confidence in silver is restored, the demand of Asia for the metal is likely to increase. On the other hand, there is also likely to result a considerable increase in production from purely silver ores.

The great objective of the Bank of the Empire is to maintain equilibrium between gold and silver at the 20 to 1 ratio. It will have attained its object when, on the one hand, there is world confidence in the ability of the Bank to maintain the value of silver, and, on the other, it is a free seller of gold at its minimum price of 113 grains per Rex. The most effective way to re-establish confidence in silver is for the Bank actually to hold gold equal to one-twentieth of its holding of silver weight for weight.

In the event, however, of the gold held reaching approximately the 20 to 1 level, the Bank, at its discretion, would raise its price for gold, and thus bring into action the powerful gold lever to which reference has already been made. In doing so, its

sole object—of which the world would be aware—would be to maintain equilibrium.

Let us now see how very powerful this lever would prove to be. In raising the price for gold the Bank would of course continue to buy and sell silver at its minimum price. Thus the whole economic relationship between the Empire, plus silver-using or other bi-metallic countries, on the one hand, and gold-standard countries on the other, would be affected. The rate of exchange between the two groups would deviate from gold parity, but silver parity would be maintained. Thus all buying and selling, all services rendered or received, and all borrowing or lending, between any country in the one group and any country in the other would be affected. Exports from what we might term Rex countries to gold-standard countries would be stimulated. Imports to Rex countries from gold-standard countries would be checked. But the more sensitive factor would be money, and particularly its movement between London, as the centre of the Rex group, and pure gold-standard centres. As the price of gold was raised it would tend to make a purchase of gold from the Bank of the Empire unprofitable, and a sale of gold to the Bank profitable. To exchange a Rex for, say, 110 grains of gold is scarcely good business if 113 grains are likely soon to be obtainable. The Bank's holding of both metals would be known, through published statements, at regular intervals. The world could thus keep watch on the figures, and should it appear likely that the price of gold would be raised, the action of the



Bank, being practically automatic, could be anticipated, and therefore obviated.

With the Rex as the monetary unit and standard of value for so important a part of the globe as the British Empire, international monetary relationships would be revolutionized. In all likelihood, countries that are struggling against the inequalities of the gold standard—such as the South American countries—might find it advantageous to come within the orbit of the Rex. This they could do by adopting silver, either alone or in conjunction with gold, as a basis for their currencies. The gold-standard countries would probably find it advantageous not to hoard gold, but to cause it to function rather than be out of harmony with the Rex. Meanwhile, London, as the financial centre of the Empire, and, moreover, linked up through silver to a further large portion of the globe, would become once more the world's monetary centre of gravity.

While the Bank of the Empire would not seek to control credit, which would remain the function of central banks, there would appear to be no objection to a certain proportion of its assets being held in securities, confined perhaps to those of the Governments of the participating countries. Thus—unlike so many schemes that are put forward—far from being a charge upon the over-burdened taxpayers of the Empire, the operations of its Bank should yield them a reasonable profit.

## CHAPTER VI

### EFFECT ON INDIA AND THE EMPIRE

MORE than 70 per cent. of India's people are directly dependent on agriculture. The Indian *ryot* (peasant) is at present beset with a series of adverse circumstances, the cumulative effect of which may be extremely serious, both economically and politically. First, in common with his fellow-agriculturalists the world over, the *ryot* is suffering from the severe fall in the price of what he produces. Secondly, the silver ornaments of his womenfolk, which in the aggregate must have cost a vast sum, have now only a very much smaller realizable value. Thirdly, the grip of the money-lender must consequently be tightening. Thus, in addition to his purchasing power being materially diminished, the *ryot* offers a fertile field for the agitator, by whom his troubles will doubtless be put down to the British Raj.

The rehabilitation of silver, however, should go a long way towards solving these difficulties. For one thing there should result a considerable stimulus to world purchasing power, so that better prices would be obtained by the *ryot* for his produce. Then, the re-opening of the Indian mints would restore the value of the great mass of silver ornaments to "par"—one rupee per tolah weight of silver—

thus rejoicing the heart of well-nigh every woman in India. Thirdly, there would be set free a fund of £40 millions known as the Gold Standard Reserve, which could be utilised in grappling with the money-lender.

The Simon Report tells us that the vast majority of the peasants are in debt to the money-lender. What this position means, and how to some extent it is being dealt with, is shown in the following extract from the "Introduction to Co-operation in India," by Mr. C. F. Strickland, of the Indian Civil Service :—

"Meanwhile the usurer is being driven slowly back ; for his extortionate loans at 37½ per cent., plus compound interest, plus false accounts, plus an infinite series of domestic tyrannies, is substituted a loan at a rate between 9 and 18 per cent., with simple interest, audited accounts and a vote for each member in the general meeting."

There are in India some 100,000 co-operative credit societies—mostly village banks—linked up to 700 central banks, which, in turn, are connected with a provincial bank in most provinces. An All-India Co-operative Bank has been spoken of but has not yet materialized. The total membership of the co-operative societies is now 4½ millions ; but as there are 700,000 villages in all India, a vast field still remains to be covered.

The Indian Gold Standard Reserve of £40 millions, which is invested in sterling securities, represents the profit on coinage of rupees. In the event of the re-opening of the mints to silver, this fund

would be entirely free. It could be utilised in establishing an All-India Co-operative Bank for the purpose of extending co-operative credit, and particularly in assisting to effect a settlement between the *ryot* and the money-lender.

I have no first-hand knowledge of co-operative credit in India, but have been in communication with Sir Daniel Hamilton, who is a pioneer in the movement and has made an extremely interesting experiment in the Sunderbans of Bengal. He bought 20,000 acres of land there, and has developed 12,000 acres of it on business lines under co-operative credit. Twenty years ago this land was jungle, but it now supports 8000 to 10,000 people. Sir Daniel has kindly supplied me with the following account of his experiment :—

“ My Sunderbans property consists of over 20,000 acres of land which was all jungle twenty years ago, and of which I have reclaimed 12,000 acres now under rice cultivation. The land is let out to the ordinary *rayat* or cultivator in holdings which average five or six acres. The population is somewhere about 8000 or 10,000, young and old. There are about twenty co-operative societies on the place, most of them credit societies. The estate is split up into divisions, and each division has its own co-operative credit society. All the credit societies are financed by the Central Co-operative Credit Society—the shareholders of the latter being the village credit societies, as well as myself and a few other residents. I lend the money required by the Central Bank at, say, 6 per cent., and the Central Bank lends to the village societies, which in turn lend to their members at 12 per cent., and the profit goes to the village banks and the Central, and can be used for social services or in any way the people please. Each

village society has a board of directors known as the *panchayat*, elected by the people themselves, and this *panchayat* deals not only with finance, but settles all sorts of village disputes as well. It is real self-government. All classes and creeds join the societies, but the *panchayat* will not admit men who cannot be trusted, as the members are responsible for their neighbours' debts as well as their own, though as a matter of fact practically every *rayat* is a member of one or other of the village societies. On the Board of the Central Bank the village banks are represented by members of the village *panchayats*, my manager and one or two others being also directors.

"Some years ago the people started a co-operative paddy-sale society, the object of which was to pool and market their crops direct in the Calcutta market, instead of selling their paddy individually to the rice merchants who used to come round in boats and buy up the paddy direct from the *rayat*. Instead of dumping their crop on the market all in a lump, the paddy-sale society was able to hold up the crop for the rise in price which comes as the crop is consumed. The paddy-sale society having been a success, the people then opened their own rice mill on the place, which cleans the paddy, and thus knocks out another middleman—the rice-mill owner who works on the outskirts of Calcutta. The people were not pressed in any way to join the paddy-sale and the rice-mill societies, but they are nearly all members now, as they have realized the advantage of doing without the middleman as far as possible.

"The rice crop (in so far as not required for the people's food) being pooled and marketed, all loans and rents are recovered from the pool, and the balance goes to the cultivator. In this way there are no bad debts, and litigation is unknown.

"The money-lenders got in at the beginning, four of them altogether, but I bought up their loans fifteen years ago, and passed the amounts to the debit of the respective cultivators, and recovered them over a period of a few years.

“A few years ago the people voluntarily agreed to pay an anna a biggah towards education, which, of course, they could not do while the money-lender and the other middlemen took all the surplus. What they pay does not, of course, cover the entire cost of education. I do my bit also, but the profit I make can stand this. I also provide doctors out of the profit; but after paying working and all other expenditure, I have quite a good profit left, which I devote to reclaiming more land and settling more people, all under the co-operative system.

“The management is entirely Bengali, and the men take a pride in the property. It is true that I laid the foundations and the lines on which to build, but the building has practically all been done by my Bengali staff, and what is done there can be done elsewhere. It is from the village upwards that new India must be built.”

*A propos* of the suggestion that the £40 millions fund might be used to bring about a settlement between the *ryot* and the money-lender, Sir Daniel also writes :—

“The best thing to do, in my opinion, is to follow the procedure which proved quite effective on my place in the Sunderbans. Offer the *mahajan* what you consider a fair price for his loan, and let him take it or leave it. In all probability he will take it, in which case let him have it, and recover the amount by instalments from the *rayat*. If, for example, the *rayat* owes the *mahajan* an old debt which, with compound interest, now amounts to Rs. 300, I should offer him, say, Rs. 200 down for it, which he would probably accept. The money would be paid through the village society, which would debit it to the *rayat* concerned, and would recover it from him with the usual rate of interest by annual instalments. The village society would not, of course, accept responsibility for more than it wanted to, but I

have no doubt that the society could 'persuade' the *mahajan* to accept whatever it thought fair and reasonable."

In dealing with Oriental peoples there is surely here ample scope for the imagination in setting forth in the most telling way the beneficent power of the British Raj and the advantages of membership in the British Empire. Through co-operation in rationalizing its gold, the Empire would have enabled the Indian mints to be re-opened to silver, the silver value of the rupee would have been restored, and with it the value of the great mass of silver ornaments. Further, the Empire in effect would have caused to be handed over £40 millions to assist the *ryot* to get out of the clutches of the money-lender, whose system is the curse of India. In the words of the Simon Report: "The misery entailed in such a system is almost equalled by its economic wastefulness." In return, might India not be expected to respond by so increasing and distributing its purchasing power as to affect beneficially all countries in the Empire?

One can visualize a grand Imperial ceremony being held in India, at which the King-Emperor would be specially represented and representatives from all parts of the British Empire would be present. The occasion would be the re-opening of the Indian mints to silver and the inauguration of an All-India Co-operative Bank with its £40 millions of capital. It would be explained in a perfectly simple way that this was the result of the whole Empire co-operating in using its great gold resources to restore

the value of silver. Thus there would be proclaimed throughout the length and breadth of India the beneficent power of the British Raj, with its most practical results in the restored value imparted to silver. This the masses of India could not fail to understand and appreciate.

And not only the peoples of India, but the still greater masses throughout the rest of Asia—which contains more than half the population of the globe—would be affected beneficially. Our Trade Mission, now on its way to the Far East, would probably be overwhelmed with business if during its sojourn the Chinese tael were raised from 1s. 7d. to say 4s. 7d. through the efforts of the British Empire. And why not? Could the Imperial Economic Conference be engaged to better advantage?

Another part of the Empire which finds itself in a serious economic tangle is Australia. While far from decrying the eminent advice that has been accorded to her, it is nevertheless permissible to remark that it appears to be wholly negative. To tell Australia that "we may hope, without certainty, that wool will retain its present level, but it is exceedingly difficult to see how wheat can fail to drop further" is cold comfort at the present juncture. Or again: "Australia has to adjust herself to a world economic situation more disadvantageous to herself than in the last decade. . . . It would be unwise therefore to place too much reliance upon estimates of what Australia could sell by increased acreage under wheat and wool."

But why should the adjusting be all on the side



of Australia, and the world economic situation itself apparently be held incapable of adjustment? The newspaper despatches from Australia of late have further unemployment writ large all over them. Britain as well as Australia is affected thereby, for unless Australia can sell her wheat and wool, she cannot buy our wares. It is not wholly Australia's internal position—however much it may require to be adjusted—but also the world economic situation that is responsible for Australia's plight.

The British Empire, through rationalizing its gold and using it in the first instance to rehabilitate silver, possesses the power to change effectively the world economic situation. Thus the way would be paved for the substitution of a positive for a negative policy throughout our borders; and there would be provided an adequate foundation on which to reconstruct. As matters stand, the Empire is running considerable risk of being deflated to death.

And what of Britain's direct burdens, such as the national debt? This burden in effect has been doubled through doubling the value of the counter in which it was incurred. So has the burden imposed by our sheltered industries on our producing industries. Unless a material rise in prices, which must be world-wide to be ultimately effective, takes place soon, we may be nearer the breaking-point than it is comfortable to contemplate.

History repeats itself. I am writing in the Highlands of Scotland, away from relevant literature, but from a book brought with me the following is extracted :—

“As a consequence, agriculturists especially, and all who had made contracts for long periods, have suffered severely. Producers of all kinds have also experienced a loss of profit because it has been impossible to readjust money wages, and labour has suffered through irregularity of employment. Probably the only class which has gained much has been the middleman, for it is notorious that retail prices have not fallen to the same degree as wholesale prices. It is usual to say that those with fixed incomes have gained; but I apprehend it would be nearer the truth to say they ought to have gained, for the middleman has most effectively broken the fall in prices so far as the consumer is concerned.”

The above extract does not refer to the present day, though it might readily be supposed to do so. It is taken from an address by the late Professor Shield Nicholson of Edinburgh University delivered in 1887, and appearing in his book “Money and Monetary Problems.” Turning to the appendix in this book I find that the wholesale price level (1867-77 = 100) was at 68 when he wrote, and that by 1896 it had fallen further to 61. From this point there was a fairly steady rise to 75 by 1900. What was the main cause of the rise? The Rand gold discoveries. The world's gold production, which was only about £20 millions per annum about the time when Professor Nicholson wrote, had increased to £63 millions by 1899.

What the South African gold discoveries achieved then, the rehabilitation of silver as the age-long partner of gold is well calculated to accomplish in overcoming the much more serious crisis with which both the Empire and the world are now confronted.

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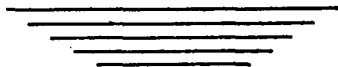
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# THE FUTURE OF EMPIRE TRADE

BY

J. E. RAY

EX-CANADIAN GOVERNMENT TRADE COMMISSIONER

WITH A FOREWORD BY

THE RIGHT HON. L. S. AMERY, M.P.



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## FOREWORD

BY

THE RIGHT HON. L. S. AMERY, M.P.

IT is a satisfactory sign of the growth of interest in the problem of Imperial Economic Unity that a large literature on the subject should be springing up so rapidly. As Mr. Ray very truly says, "There is no bigger business problem challenging the British people than the organisation and conduct of inter-Empire trade on a sound and sane basis." Towards the understanding of that problem he has made a contribution, unassuming, indeed, in bulk, and unpretentious in manner, which is, nevertheless, one of real value. For in the brief compass of this little book he has not only shrewdly analysed the general economic situation, past, present and prospective, in the Empire, but he has also furnished the reader with a sufficiency of material bearing on the resources and productive capacity of the various territories of the Empire, and on the trend of Empire trade, to give weight to his argument. Both as a statement of the case for Empire co-operation, and as a handy work of reference on the subject, I can heartily recommend Mr. Ray's book to the general reader.



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# THE FUTURE OF EMPIRE TRADE

## CHAPTER I

### A SURVEY OF BRITISH INDUSTRY AND TRADE

IF there is one thing more startling in the industrial and commercial life of Great Britain than the long scroll of the unemployed it is the lengthening catalogue of manufacturers and exporters who are seriously alarmed at the prolonged trade depression and the absence of any sign of immediate or prospective appreciable improvement. Everywhere the question is being asked: "What is really wrong with British trade?" Explanations are numerous, diverse and, in the main, unsatisfactory and unconvincing.

To be compelled to maintain more than one million persons unemployed during so long a period as eight years would be a serious matter for any country, but for a nation that once stood supreme among the world's industrial and commercial peoples to be in such a condition is both serious and tragic. The tragedy is three-fold. In the first place there is the deterioration of skill resulting from protracted unemployment and the prospective dearth of skilled men in the coming years due to the inability of industry to absorb an adequate number of apprentices; secondly, there is the demoralizing effect of continuous unemployment; thirdly, there is the heavy financial burden borne by the productive members of the community in order to maintain those that are

unproductive. It is not surprising that the gravity of the situation is becoming daily more oppressive in industrial and commercial circles. Optimism is strained to the breaking-point. The innate trait of faith in the nation's ability to "muddle through" is being sorely tried by a problem only second in magnitude to the task of "winning through" in the great war. Of one thing we can be quite certain—we shall never "muddle through." Not by faith without works will our difficulties be overcome, but by faith with works.

Can British industrial and commercial supremacy be restored? That is a formidable question. Much remains to be done if an answer in the affirmative is to be furnished.

In order that we may see clearly where Great Britain stands to-day in relation to world trade, and especially to that part of it connected with her overseas Empire, a brief retrospective survey of her industry and commerce should be informative. It will help us to see more clearly why she stands in her present position.

It is recognized by all students of British industrial and commercial history that as recently as mid-Victorian days Great Britain was the workshop of the world, and that the supremacy of her foreign trade was practically unassailable. Such competition as existed was more pronounced in her home market than in her markets overseas. Just as she was the world's supreme colonizer, so was she the world's supreme supplier of manufactured goods. Almost alone in the field of invention, she was marvellously strengthened by mechanical devices. Her paramount position in industry and commerce was not without its perils. It bred in the British mind an arrogance, a cocksureness and a conservatism which constituted a stumbling-block in several directions. Pride in the achievements of yesterday is no guarantee to a pugilist that he can successfully defend himself against the skill of his new opponent of to-day or to-morrow. Cocksureness is always susceptible to defeat,

## SURVEY OF BRITISH INDUSTRY AND TRADE 11

and conservatism is often trodden under the feet of progress marching forward in strength and confidence towards a new and better day.

By taking a retrospective survey of Great Britain's industrial and commercial supremacy of sixty years ago, and the foundation upon which it was built, we shall be able to observe the forces that assailed that supremacy and, at the same time, to note the vulnerable parts that exposed themselves to attack.

In the first place, it is impossible to attribute to any specific cause the greatness of British industry and trade. It is the outcome of inherent qualities, accidental influences, and gifts of nature. Much of the people's greatness was born in them, much has been achieved by them, and much has been thrust upon them. No one will deny that the British have been endowed with the rare gift of inventiveness, that they have accomplished wonderful things by sheer doggedness, and that wealth has been flung into their laps by the gods of circumstance.

As if conscious of the type of people that would inhabit Great Britain, nature was lavish with her gifts. By surrounding the country with water she gave the inhabitants an inestimable asset—a natural bulwark against the attacks of enemies; an abundance of raw materials indispensable to a nation desirous of becoming a first-rate industrial power; and an ideal geographical position for the development of industry and the transaction of trade with two hemispheres. Further, the climate of the country is so equable that work can be carried on continuously, whilst the humidity of the atmosphere has given birth to, and sustained, a great cotton industry which is the envy of many peoples less favoured climatically.

If we trace the rise of Great Britain's industry and commerce to its source, we find that the English were great traders long before they became great manufacturers. Indeed, it is not an exaggeration to state that

British industrial supremacy was the work of less than three centuries. Continental peoples were supreme in the manufacturing arts and in merchanting long before the Elizabethans entered into serious competition with them. As Cunningham wrote: "In the fourteenth century the whole of the external and much of the internal trade of the country had been in the hands of foreigners; in the fifteenth our merchants began to push their way from point to point in the Mediterranean and the Baltic; in the sixteenth they followed slowly in the wake of other adventurers, or tried to establish themselves in unkindly regions which had attracted no one else. When Elizabeth ascended the throne, England appears to have been behind other nations of Western Europe in the very industrial arts and commercial enterprise on which her present reputation is chiefly based."

As history relates, Elizabeth was prevailed upon to inaugurate a vigorous policy designed to strengthen her realm commercially as well as politically. The "Mercantile System" was established, its main objects being the acquisition of shipping and the encouragement of home industries. Navigation Acts, designed to promote shipping, were passed; Corn Laws were enacted for the purpose of promoting and protecting the agricultural industry; special measures were taken to prevent unnecessary imports of foreign goods, and to encourage home manufactures and their exportation.

In the early years of the seventeenth century the memorable Merchant Companies, some of which were founded in the reign of Elizabeth, began to trade extensively with the Levant. By 1621 England did a more profitable trade with Turkey than did any other nation in Europe. Among the exports were broadcloth, tin, hides, etc., the return cargoes being composed of silk, cotton, jewels, dried fruits, and other products. The celebrated East India Company also carried comparatively large quantities of bullion, iron, tin, broadcloth,

cutlery, glass and other products to India, and brought back valuable cargoes of spices, calicoes, pepper and various other Indian manufactures and products. Other large Merchant Companies traded with Russia, the Netherlands, France, Spain and Portugal.

During the seventeenth century British industry grew in magnitude and importance. Foreigners had been encouraged to settle in various parts of England in the preceding century, and English workmen had learned from them the art of weaving. In 1685 nearly 50,000 Huguenots came over to England bringing with them capital and skill. They added more than wealth to the country; they augmented its industrial capacity, and taught Englishmen the arts of making glass, paper, hats and silk weaving on a larger scale and more efficiently than had been the practice up to that time.

Industry and commerce continued to advance throughout the eighteenth century, but the details in regard to their character need not be quoted here. We may note, however, the passing of certain industrial conditions. About 1750 birth was given to what is generally known as the Industrial Revolution. Prior to that time machinery had been utilized only to a limited extent, and the idea of steam power, of course, was still simmering in the brain of James Watt, the genius who was destined to bring it to the service of man. All manufacturing was done in, or near, the homes of the workmen by parents, children and apprentices. This method of production was known as the "Domestic System."

In 1769 James Watt sounded the death-knell of the domestic system and heralded the advent of a new era by patenting his steam engine. During the last thirty years of the eighteenth century other inventions saw the light. Hargreaves patented his "spinning-jenny," Crompton invented the "mule," and Cartwright introduced his "power loom." These inventions gave a remarkable impetus to British industry and commerce, so that Great Britain soon became the leading industrial

and commercial nation of the world. In a decade, from 1782 to 1792, the country's foreign trade nearly doubled itself, the imports rising in value from £10,341,628 to £19,659,358, and exports from £13,009,458 to £24,905,200.

The opening of the nineteenth century witnessed a wonderful increase of British trade with foreign countries, while trade with the colonies began to increase also, although the growth was not rapid until after the year 1820.

With the revolution in methods of production there came a revolution in methods of transportation. Steam-engines and steamships facilitated the movement of commodities to and from various parts of the country, and speeded up trans-oceanic commerce. Steam was more and more utilized in the manufacture of goods hitherto made by hand or hand-machines, so that the output of the country was augmented year by year. Thus, through the introduction of machinery and steam-power, birth was given to our present industrial system.

This brief survey of Great Britain's industrial and commercial evolution is outlined in order that we may obtain a clearer idea of the entrance of foreign rivals into competition with us for the markets of the world. The evolution and extent of that competition need not be dealt with exhaustively, as they are fairly well known by the leading manufacturers and exporters of Great Britain.

Prior to the American Civil and the Franco-Prussian wars, neither the Americans nor the Germans were serious rivals of the British in world-trade; but almost immediately after the termination of those conflicts they began to develop their industries on an increasingly large scale. Primarily their intention was to supply their respective peoples (especially in the case of the United States) with commodities hitherto imported, whilst their ultimate goal was the acquisition of an export trade which should not be inferior in magnitude to that of the United Kingdom. Each country, of course, had been previously exporting commodities peculiar to its natural production, but in no

way were they seriously competitive with the manufactures of Great Britain either in her home market or in her markets overseas.

The success that attended the industrial efforts of those two countries is familiar to all of us. Not only did each decade, from 1870 to the outbreak of the European war, witness the influx of their manufactures into foreign countries which had previously relied almost exclusively upon Great Britain for supplies, but it also saw an unprotected British market flooded with commodities so cheaply priced that the demand for similar manufactures produced in our own factories declined in consequence. This apparent anomaly is worthy of close scrutiny by those economists who contend that "free-trade" was pursued in Great Britain because it enabled our manufacturers to produce at a lower price than would have been possible under a protective tariff.

More recently than the trans-Atlantic and Continental invasions there came the Japanese industrial expansion, the influence of which has been keenly felt in our home market, and in our markets overseas, especially in the Dominions, the Colonies, and the Far East. For well-known reasons the Japanese invasion has been checked slightly in several directions during the past seven or eight years, but some of their manufactures are formidably competitive in a number of markets contiguous to Japan. With improving methods of production and closer attention to the finish of their products, there is every likelihood of Japanese manufacturers gaining a stronger position in the markets of the Far East.

The arrest of production in France, Belgium, Austria, Czecho-Slovakia and Italy in the years succeeding the war obviously curtailed their export trade. During the past five or six years, however, there has been a steady increase of production in some of these countries, and a large increase in others. He would be an optimist indeed who foresaw no serious competition with these countries in the world's markets during the next ten years. On the



contrary, it is probable that the competition will assume a keenness far more pronounced than it was throughout the decade which preceded the European war. ~~All~~ the countries enumerated were impoverished by the upheaval, and as the only means of enrichment are production and export trade we may be sure that they will spare no effort to develop them. Even if it be conceded that, in the natural order of things, the world's consumption will increase, it is quite obvious that any market or part of a market captured by our competitors will be lost to us.

The most remarkable change, however, in post-war as compared with pre-war conditions took place in Great Britain. It was connected with our industrial life, and was bound to be reflected in our export trade, although during the transformation few, if any, halted to consider its ultimate effect. That change was the elevation of wages to a point far higher than that of Great Britain's competitors, with the probable exception of the United States. Then came the enormously increased burden of taxation, the slump in trade, strikes, and the depression that is still with us, subjects which will be referred to again in another chapter.

## CHAPTER II

### GREAT BRITAIN AND HER DOMINIONS

A QUARTER of a century has passed since Joseph Chamberlain sounded his trumpet call "Think Imperially." The call was heard, yet heeded but in part. It was translated into a political war-whoop, and there ensued, between the "Little Englanders" and the "Imperialists," a long and bitter battle. Perhaps the sound of the trumpet was too startling and too shrill for a people whose ears had not been trained to catch sounds beyond the roar of the seas that encircle their little isle. The minds of the great majority were directed and controlled by the exclusive interests of the domestic circle, and the minority, as is invariably the case, were compelled to submit to the larger force. The nation's industrial and commercial success during the Victorian age had lulled the people to the sleep of self-complacency. To the factories and marts of England had the world for generations come, and where was the nation industrially strong enough to challenge them? Under its existing fiscal policy the country had been remarkably successful; therefore, why change it? Only to a few thinkers did it occur that the nation's success might have been attributable as much to the paucity of external competition as to its fiscal policy. Be that as it may, there followed between the free-traders and the fiscal reformers a battle that has continued, save for periodic lulls, down to the present day.

Prior to the call of Chamberlain, the unification of the Empire and its political and commercial consolidation had never been presented to the mind and imagination of the British people at home. The peoples of the

Dominions were ahead of them in that respect. The expansion of Great Britain into a Greater Britain was a new idea, and never have the English readily absorbed new ideas. On the contrary their history teems with examples of the rejection of innovations in their incipient stages.

Until the dawn of the twentieth century the State confined its activities mainly to the government of the people. Perhaps the only exceptions were associated with territorial acquisitions. Even in regard to those little or no effort was made to develop by the implements of peace the lands that had been acquired by the implements of war. The economists of the eighteenth and nineteenth centuries maintained that all development agricultural, industrial and commercial, should be relegated to private enterprise with the State as a spectator rather than as a performer in the arena. It was not considered to be part of a Government's duties either to encourage or to aid by practical means the development of the nation's overseas territories.

Regarding the attitude that a State or a Government should adopt in these matters there will doubtless always be differences of opinion. But if in the best interests of the people it be conceded that Governments should not trade in the products of the earth, it must surely be admitted that it is their duty to till the soil and prepare it for the seeds of private enterprise in due course. Or, if they may not sell the products of the factories, surely it should be their duty to protect those products from the assaults of rival producers. If it be expedient to protect the citizens of a State, it cannot be inexpedient to protect the means by which they live.

What was the attitude of Great Britain towards her Dominions, Colonies and Possessions up to the year in which Joseph Chamberlain advocated the forging of stronger economic hoops wherewith to bind the units of the Empire? It must be admitted that it was largely an attitude of indifference. So long as the colonies were

willing to receive our surplus population, and to send their buyers to our markets periodically, there was no cause of complaint, and no need of change. If our own agricultural areas were being depleted of their man-power, with no hand to distribute the men to the best advantage of the Empire, it did not matter so long as from the factory stacks the smoke ascended daily.

This attitude of indifference was merely an extension of the views held by the pundits of theoretical economics in the eighteenth and early nineteenth centuries, and by the politicians of the Cobden circle. The latter contended that our finances would be infinitely healthier if they were protected from the baneful air of the colonies. Investments in foreign countries were preferable even though the despatch of a warship should be occasionally necessary to bring back the fruits thereof. Sever the family ties, and let the children fend for themselves. It would be wiser and undoubtedly more profitable, they maintained, to concentrate upon trade with foreign countries.

In 1835 Cobden wrote: "We believe that no candid investigator of our colonial policy will draw the conclusion that we have derived, or shall derive, from it advantages that can compensate for our formidable sacrifices. If we no longer offer the exclusive privileges of our market to the West Indians, we shall cease, as a matter of justice and necessity, to compel them to purchase exclusively from us. They will be at liberty, in short, to buy wherever they can buy goods cheapest, and to sell in the dearest market. They must be placed in the very same predicament as if they were not a part of His Majesty's dominions."

Whatever immediate justification existed for the adoption of that attitude towards colonial affairs, it was certainly shortsighted. It lacked imagination and vision. In the mind of its author there was no rule wherewith to measure the shadow which is cast before coming events. To us of the twentieth century it is incomprehensible that

the great men of a century ago should have failed to foresee the future political and economic value to Great Britain of her vast possessions overseas. There were exceptions among those men, as we shall observe, but unfortunately their vision was veiled by the exigencies of party politics at home.

Such a pronouncement, emanating from so influential a public man as Cobden, could not fail to impress the people of the British Isles, to disseminate amongst them an indifference to colonial expansion and imperial unity, and even to persuade them that dismemberment of the Empire would be preferable to its consolidation. As already stated, however, not all thinkers were in sympathy with Cobden's views. It seemed at one time that the advocates of a continuance of colonial preferences might succeed against the free-traders. Sir Robert Peel said in the House of Commons: "If you look properly at the relations between yourselves and the colonies, you must consider your colonies entitled to be put on a different footing from foreign countries, and that it is perfectly fair to give to articles of colonial production a preference in your markets over articles the produce of foreign countries. I am disposed to think even that you ought to carry the principle of assimilation, if you can, so far as to consider the colonies an integral part of the Empire for all commercial purposes."

Peel's sudden and unexpected *volte-face* threw a curtain over the question of colonial preferences, and it was not until sixty years afterwards that it was drawn aside by Joseph Chamberlain in order to expose the whole subject for re-inspection.

*Ad interim* many important changes and significant developments had taken place in the larger Dominions. They had begun to manufacture on an annually increasing scale numerous articles hitherto purchased from Great Britain. Moreover, they had ventured to conclude reciprocal trade agreements with foreign countries that were Great Britain's competitors in their markets, and

to follow the admonition of Cobden "to buy wherever they can buy goods cheapest, and to sell in the dearest market." The experiments in manufacturing were remarkably successful; so successful that British manufacturers were becoming alarmed. They were also alarmed at the growth of the Dominions' imports of manufactured goods from alien sources, such as the United States, Germany, Austria-Hungary, Belgium and France. It was obvious that every article manufactured in the Dominions, or imported from foreign countries, would mean a corresponding decline of purchases from Great Britain. British manufacturers thought that countries like Canada, Australia and New Zealand, in which agricultural pursuits were dominant, would direct their energies to agriculture almost exclusively, and that such implements as were needed for its prosecution would be purchased from the Mother Country as a sort of reciprocity for her purchases of their products of the soil. No one believed that Canada, for example, would so soon manufacture not only millions of dollars' worth of goods for home consumption, but also enormous quantities for exportation to markets from which she had previously imported similar commodities.

In contrast with the *laissez-faire* of Great Britain, from whom a lead in such matters should have been forthcoming, the practical activities of several of the Dominions in regard to inter-Imperial trade are worthy of the highest commendation. In 1897 Canada extended preferential treatment to a long schedule of commodities, not only to the United Kingdom, but to British India and New South Wales. Later the benefits were conceded to several British colonies, whilst a special preferential treaty was framed between Canada and a number of the islands of the West Indies, which gave an impetus to production in the latter countries, and increased their purchases from the Dominion. In 1903 both New Zealand and South Africa granted preferences

to certain United Kingdom manufactures, and five years later Australia followed their example.

In addition to those preferences to the United Kingdom several of the Dominions extended the system to one another. Canada had already set an example by her treaty with the West Indies. She was followed by Australia and New Zealand, their respective Governments resolving in 1906 to grant preferences to South Africa.

As it was apparent to Great Britain that her Dominions were resolved to arrange reciprocal trade treaties among themselves, and also with such foreign countries as were disposed to offer tariff concessions in return, many of our leading business men began to weigh and to consider the arguments for and against adherence to the principle of free-trade. If the resources of the Dominions were so extensive and so full of promise when developed; if their populations were destined to increase in vast numbers, and so constitute valuable markets; and if the respective Governments were determined to conclude trade treaties even with Great Britain's commercial rivals, the question arose as to where British manufacturers and merchants would ultimately stand. But so firmly was Cobdenism rooted in the minds of the British people that at least two attempts to change the existing fiscal policy have proved disastrous failures. The whole question of inter-Imperial trade based upon a system of preferential tariffs had to await, and still must await, a change in the mental attitude of our people towards it.

If matters moved slowly on the political side, and even to-day show no sign of advance, useful work has been undertaken in other directions, all tending towards a solution of the problems connected with the economic life of the Empire. Valuable investigations were conducted from 1912 to 1916 by the Dominions Royal Commission, and practical proposals resulted therefrom. Unfortunately the labours of the Commission were confined to the five self-governing Dominions, India

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and smaller, but rich, parts of the Empire being inhibited from their programme. The Commission was the outcome of a resolution of the Imperial Conference held in 1911 recommending an immediate inquiry into the natural resources of the said Dominions; to suggest methods of developing those resources; to ascertain the extent of their trade with the Mother Country, with one another, and with foreign countries; to collect data regarding their needs and those of the United Kingdom in respect of food and raw materials, and existing and prospective sources of supplies. Power was assigned to the Commission to present recommendations, and to suggest some means of developing and extending trade between the respective Dominions, and between the latter and the United Kingdom, such suggestions and recommendations to be in harmony with the existing fiscal policy of each country concerned.

The Commission discovered what was apparent to all men who had previously given the matter any consideration, namely, the absence of co-ordinated effort, and the piece-meal character of the attempts which had hitherto been made to deal with such vital subjects as mail services, cable communications, the development of harbours, the nature, extent and location of raw materials, commercial legislation, industrial and trade statistics, etc. To investigate those matters and to make practical proposals for the development of the Empire's resources and the promotion of inter-Imperial trade, the Commission suggested the establishment of an Imperial Development Board. Up to the present time, however, such a body has not been brought into existence, the nearest approach to it being the Imperial Economic Committee, out of which sprang the Empire Marketing Board. To the work of the latter organization a brief reference may here be made.

So far, the Imperial Economic Committee has had to operate within the limits of its "Terms of Reference" which are: "To consider the possibility of improving the methods



of preparing for market and marketing within the United Kingdom the food products of the Overseas parts of the Empire, with a view to increasing the consumption of such products in the United Kingdom in preference to imports from foreign countries, and to promote the interests of both producers and consumers."

Through the Empire Marketing Board the Committee has been able to do much commendable work within the foregoing terms, and there can be no doubt that the activities of the Board will increase in importance and value to the whole Empire. Its publicity and educational propaganda are exceptionally praiseworthy, whilst its researches, scientific investigations, suggestions for improved marketing methods, inquiries into wastage of foods in transit, the causes of diseases and the means of eliminating them are all advancing in the right direction. The staff is a thoroughly competent one, each having been chosen on account of his specialized knowledge of the particular branch of the Board's work assigned to him.

If the writer may be permitted to offer a suggestion in regard to the work of the Empire Marketing Board, and also the work of all Government Departments at home and in the Dominions, it is that an effort should be made to eliminate duplication and over-lapping by co-ordinating, as far as practicable, the activities of all Departments concerned. It is obvious that if Government Departments engaged in the collection and dissemination of commercial information are to be of service to Imperial trade they must maintain close contact with business men. The closer it is, the better will the result be. The business men of Great Britain are invariably willing to assist Government Departments in their investigations, and if that good-will is to endure it must not be abused. During recent years there has been a tendency to multiply official investigators at home and in the Dominions, in the latter more especially, and their investigations are often identical in character. Although the Dominions maintain residential officials in Great Britain

whose duty it is to keep their respective countries informed on all matters relating to the import trade of this country, its marketing requirements, business methods, etc., it frequently happens that "specialists" are commissioned to visit the British market to collect data which should already be, and probably is, on file at the capital of their respective Dominions. Reference is here made, of course, more especially to the "specialists" sent to investigate on behalf of individual States and Provinces.

It will be readily understood that if a business man is called upon by a dozen or more officials from the Dominions, all inquiring about the demand for and the quality of specific commodities, he will naturally be inclined to resent the demands upon his time however sympathetic he may feel towards the advancement of Imperial trade. This kind of duplication and over-lapping should be minimized or expunged by the adoption of a system which would enable such information to be drawn from a single source.

Many associations are operating on similar lines independently. In the interests of economy and efficiency an Imperial bureau should be established, staffed by representatives from the various parts of the Empire, to undertake, among other things, the work at present done by a multitude of Government Departments within the Empire, and by various public, semi-public, and private agencies.

## CHAPTER III

### RESOURCES OF THE EMPIRE

#### (1) FOODSTUFFS.

IN the report referred to in a previous chapter the Dominions Royal Commission stated: "We have found that in one part or other of these (self-governing) Dominions all animals and almost every crop flourish that are needed for the sustenance and use of man, and we believe, especially if products of the more tropical parts of the Empire which were not included in our investigation are taken into account, that the Empire could meet not only its own needs but those of friendly neighbouring countries." So much for the magnitude of our resources. In regard to the necessity for reserving and developing them in the interests of the whole Empire, the Commission were no less emphatic. "In our opinion," they said, "it is vital that the Empire should, so far as possible, be placed in a position which would enable it to resist any pressure which a foreign Power or group of Powers could exercise in time of peace or during war by virtue of a control of raw materials and commodities essential for the safety and well-being of the Empire, and it is towards the attainment of this object that co-ordinated effort should be directed."

That the natural resources of the Empire are enormous in extent and almost infinite in variety is common knowledge; that upon their development depend the future prosperity of the units of the British Commonwealth and the existence of the Empire as a whole, all students of the subject are agreed; but as regards the best methods of developing the resources there is neither common know-

ledge nor agreement. None will deny that the problem of development is as complex as it is urgent, nor will anyone be so bold as to suggest that a solution of it is other than difficult to find. It presents a challenge to the genius of the British race, and the challenge must be taken up without further delay unless we are content to witness the gradual absorption by foreign countries of the most valuable resources of our Dominions, especially those of Canada, where the invasion of the United States continues unchecked by any corresponding movement on the part of Great Britain. At the present time the United States holds investments in Canada exceeding £700,000,000, a large proportion of which amount is connected with raw materials and manufacturing industries. The appalling state of affairs at the outbreak of the European war, when it was discovered that Germany held a monopoly of valuable raw materials in our Dominions, must never recur. The Empire was then taught a lesson. Let us hope that the tuition will be permanently effective.

The nearest approach to a solution of the problem sprang from the Imperial Economic Conference of 1920, the labours of which body are recorded in print for the benefit of all who are interested in the development of the Empire's resources and trade. It was evident to the Conference, however, that its resolutions could be carried out only in part on account of the existence of obstacles constitutional in nature, the most formidable of which was connected with tariffs. Tariff resolutions could not be put into effect, of course, until any proposed impositions or changes had been submitted to, and approved by, the respective Governments, Parliaments and peoples represented at the Conference. In the meantime, the peoples of Great Britain, the Dominions and Colonies are presented with opportunities to study the question of Empire inter-trading and methods of developing it through a number of agencies organized to conduct educational propaganda.

To enumerate all the foodstuffs of the Empire would be a big undertaking; consequently only the chief products will be referred to, and they must be dealt with succinctly. Students who seek an exhaustive treatment of the subject should consult *The Resources of the Empire*, by Evans Lewin.

Food products stand foremost, inasmuch as Great Britain imports the bulk of her food requirements. It is essential that the development of agriculture and its allied industries should advance to a degree commensurate with the needs of the whole Empire, so that in the event of war with foreign countries from which we now draw supplies, we may be self-supporting. Even in times of peace it is a sane policy to trade amongst ourselves in foodstuffs, more so than in any other products.

**WHEAT.** Wheat is the predominant agricultural product in the menu of civilized people. Year by year the consumption of it increases, and in view of the tendency of men to abandon agricultural for industrial pursuits, the probability is, not that consumption will decline in the coming years, but that production may fail to keep pace with it. Therefore the expansion of wheat production within the Empire is of the utmost importance. It is highly improbable that the foreign sources from which Great Britain draws a large proportion of her requirements will be able to guarantee continuous supplies of the present magnitude, for the reason that the home demand of at least two of those sources—Argentina and the United States—is increasing, and must continue to increase yearly as their populations grow, and as consumption in their contiguous markets is augmented. Moreover, the tendency of the three great Empire sources, India, Canada and Australia, is to consume more and more of their own wheat at home. Indeed, Asia and Africa are so surely tending to consume more wheaten flour that, on account of their geographical position, they will obviously draw their increasing requirements from the Indian and Australian wheatfields, thus leaving smaller quantities

upon which Great Britain can draw unless the wheat acreages of those two sources are considerably enlarged.

As Great Britain does not produce one-third of its requirements (the annual consumption is approximately 245,000,000 bushels), and as home production under the depressed state of agriculture is hardly likely to increase, it will be seen how much more dependent upon external supplies our people must become. If, as already stated, we may anticipate a diminution of quantities which will be at our disposal in Argentina, the United States and India, and there is no near prospect of Russian exports reaching their pre-war magnitude of 145,000,000 bushels, it is apparent that production in Australia and Canada should be extended in the interest of the Mother Country as much as in the interests of those two Dominions.

Increased production in both countries is interwoven with the question of increased population. However extensive may be their respective lands suitable for wheat-growing, there can be no cultivation without labour. As that aspect of the question is dealt with in a separate chapter, nothing need be written at this juncture. Fortunately there are vast areas of land available for wheat-growing. In Canada alone not more than 25,000,000 acres are under wheat at the present time. That an equal number of acres could be put under the plough is a conservative estimate, especially if it be borne in mind that in the Prairie Provinces there are over 400,000,000 acres of land, a considerable proportion of which is suitable for wheat cultivation.

The following statistics illustrate our imports of wheat from Canada in 1928, and also those from all other sources.

	Cwt.
Canada . . . . .	41,005,492
Australia . . . . .	10,233,345
British East Indies . . . . .	1,548,412
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Total British Empire . . . . .	52,787,249

	Cwt.
Brought forward—British Empire	52,787,249
United States . . . . .	23,662,487
Argentina . . . . .	24,399,294
Other Countries . . . . .	2,729,350
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Total Foreign . . . . .	50,791,131
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Total . . . . .	103,578,380

We therefore imported from Empire countries approximately 2,000,000 cwt. more than we drew from foreign sources; but in 1927 we imported 6,000,000 cwt. more from foreign countries than from the various parts of the Empire, which clearly indicates our dependence upon alien wheat, and the consequent necessity for extended development of production within the Empire.

Statistics relating to our imports of wheatmeal and flour in 1928 show that of the 8,926,941 cwt. brought into the country, approximately 5,860,000 cwt. came from Empire countries, mainly Canada.

Although the average wheat production of Australia is less than half of the production of Canada, the country has enormous possibilities, and if the requisite population be forthcoming, combined with satisfactory prices, the production can be more than doubled within the next ten years. The present average production is about 150,000,000 bushels, which is twice as large as it was twenty years ago. It is estimated that the four principal wheat-growing States contain acreages large enough to increase their production six-fold. Whether this will be done or not depends upon the supply of labour and the general economic tendencies of the future. If only a tenth of the land capable of producing wheat be brought under cultivation it should not be difficult for Australia, in the near future, to displace Argentina as the third most important source of Great Britain's wheat supplies.

The other three wheat-growing countries of the Empire are of little importance at the moment so far as our

sources of supply are concerned. Their production is on a scale sufficiently large to influence prices of wheat in the world's markets, inasmuch as New Zealand and South Africa are almost capable of supplying their own domestic needs, whilst India is not only in a position to satisfy its home requirements, but invariably has a surplus of a few million hundredweights for export.

**BARLEY.** Although Canada is yearly increasing its production of barley, the United Kingdom continues to draw the bulk of its supplies from the United States. There is no indication that the whole of our needs will, in the near future, be met by home production, which at present contributes little more than 50 per cent. to our annual consumption. Consequently, there is further scope for development of production in Canada, India and Australia.

In 1928 the imports of the United Kingdom were approximately 13,000,000 cwt., over one-third of which came from the United States, against one-sixth from countries within the Empire. Extension of acreages under barley is possible in India and Australia, but apparently we must continue for many years to rely upon Canada for any appreciable increase of our imports from an Empire source.

**OATS.** About 75 per cent. of our annual consumption of oats is produced in parts of the British Isles. In 1927 we relied upon Argentina for more than one-third of our imports, but in 1928 there was a very decided increase of Canadian supplies, and a corresponding decline of imports from Argentina. Canada's production in 1928 was 452,000,000 bushels, the average yield per acre being 34·4 bushels. Of that quantity 1,679,000 cwt. were contributed to our total imports of 7,449,406 cwt.

Oats are grown successfully in Australia and New Zealand, but neither country is yet exporting to any extent. Under extended cultivation in those countries, in Canada, the Irish Free State, and at home, it is anticipated that we shall be independent of foreign supplies in less than ten years. Unfortunately the yield per acre in



Australia and New Zealand is very much lower than that in the United Kingdom and Canada, and it is doubtful whether it can be much improved, on account of their drier climate. Oats thrive best in damp and cool countries.

**MAIZE.** As the United Kingdom's imports of maize in 1928 exceeded 33,000,000 cwt., valued at nearly £15,000,000, an extension of production within the Empire could not fail to be distinctly advantageous. Until recent years practically the whole of our imports came from foreign countries, mainly Argentina. In 1928, however, the Union of South Africa sent us 4,170,981 cwt. While the principal productive areas continue to be in the Transvaal and Orange Free State, there is reason to believe that Rhodesia, if the railway rates could be reduced, would be able to put immense areas under maize; but the handicap of haulage costs must first be overcome.

From the Kenya Colony annually increasing supplies may be expected, as the cost of production is lower than in the United States and Argentina. At present the industry is capable of exporting nearly 2,000,000 cwt. a year.

**RICE.** The consumption of rice in the United Kingdom is not large. Imports in 1928 were only 2,559,059 cwt. The development of production in various parts of the Empire is imperative for reasons other than the demand for rice in Great Britain. We must remember that it is the staple food, not only of the natives of India and the larger dependencies, but also of the numerous Asiatic peoples in many of our colonies. Even a partial failure of the rice crop is attended by suffering on the part of thousands of the Empire's citizens.

As is well known, India is the largest producer of rice in the world. The estimated yield in the 1928-29 season exceeded 31,000,000 tons, less than 10 per cent. of which was available for export on account of the enormous domestic consumption. In the 1927-28 season, however,

the exports of rice and rice flour amounted to 1,793,661 tons.

In British Malaya rice cultivation is on a scale large enough to meet the big internal consumption, and to leave a surplus of about 300,000 tons a year for export.

Attempts are being made to increase production in Australia, Fiji, Kenya Colony and Uganda, and it is expected that in due course quite large quantities will be forthcoming from regions in West Africa.

Rapid progress is being made in British Guiana, the exports in 1928 being 40,506,252 lb. compared with 25,752,301 lb. in the previous year. Development will continue in view of the country's potentialities and the markets available within a comparatively short distance of the areas of production.

**DAIRY PRODUCTS.** It is not until we closely study the statistics relating to our imports of dairy products that we realize the large sum of money which we expend upon them annually and the magnitude of our dependence upon foreign supplies. The value of our imports of butter and cheese in 1928 was £67,116,394, nearly £10,000,000 more than were spent on imported wheat. More than half of the butter imported came from countries outside the Empire, the chief of which was Denmark. It must be admitted that economic factors have to be taken into account when we suggest that more butter should be drawn from Empire sources, one of those factors being the proximity of Denmark to the United Kingdom. But if it is economically possible to import over two and a half million hundredweights from Empire countries, as was the case in 1928, there appears to be no reason why our total annual requirements of six million hundredweights should not in time be imported from the same sources.

At present our Empire butter is drawn from the two Dominions of Canada and New Zealand, from Australia, and from the Irish Free State. In New Zealand, so progressive has been the dairying industry that the

production of butter has increased by 200 per cent. during the last ten years. The industry has by no means reached the limit of its capacity, so that there is every prospect of the exports of butter exceeding those of 1928, which were 1,449,570 cwt., valued at £11,302,667.

Although dairying is a successful and growing industry in Australia, the export of butter is meagre in comparison with that of New Zealand. Owing to uncertain climatic conditions there will always be fluctuations in the annual production. At the same time, it is probable that during the next ten years there will be a very much larger quantity available for export than there has been during the past decade. In 1928, although our imports therefrom were nearly twice as large as in the preceding year, they represented only 873,000 cwt. of our total imports of 6,120,823 cwt.

In Canada the dairying industry has made enormous progress during the past quarter of a century, but so large is the domestic consumption that less than 20,000 cwt. were available for export in 1928. There was some fear a few years ago that Canadian butter would cease to be procurable in the United Kingdom. In 1927 our purchases were only 423 cwt., and even though a substantial increase was recorded in the following year, it was infinitesimal compared with our imports from all sources.

Whether the production of butter in South Africa in the coming years is likely to provide an appreciable surplus for export cannot be predicted with certainty, but there appears to be no reason why the dairying industry should not be extended if the people are resolved upon taking that course. At present the country's exports of butter and butter substitutes are less than £20,000 per year in value.

It is from the Irish Free State that we can reasonably expect to draw increased supplies, not only on account of the superior quality of the butter, but because of the valuable economic asset afforded by contiguity to the

British market. If the farmers resolved to develop and to organize the industry scientifically, it should be possible for them to challenge the supremacy of Denmark, from which country we continue to purchase approximately one-third of our imported butter.

So far as cheese is concerned, there is little ground for complaint from the standpoint of trade within the Empire. Of the total imports of 3,006,352 cwt. in 1928, no less than 2,549,212 cwt. came from the Dominions of New Zealand, Australia and Canada. As New Zealand is rapidly developing her dairying industry, the leading productive unit of her economic life, in a few years' time we may witness the entire elimination of imports of cheese from foreign countries, except such kinds as are demanded on account of their peculiar properties.

**EGGS.** The extent to which the United Kingdom will be able to draw upon countries of the Empire for its annual supplies of eggs depends upon several factors. There will need to be increased production, larger storage facilities, scientific grading, organized marketing, and a preference by the consuming public for products of Empire origin. In 1928, of the total imports of 26,467,410 gt. hundreds, valued at £17,766,531, less than one-fourth came from countries within the Empire.

In the Irish Free State, Canada, Australia and South Africa there are almost unlimited facilities for the development of poultry farming, and it may be taken for granted that the industry will grow year by year, especially if British consumers will encourage the pioneers by extending preferential treatment to their products when making their weekly purchases.

**MEAT.** Large as are our imports of wheat and dairy products, the largest item of foodstuffs imported is meat, comprising beef, mutton, pork, bacon and hams, the value of which, in 1928, exceeded £100,000,000, approximately one-third more than the value of butter and cheese imported. More than two-thirds of those meat products are drawn from foreign countries, the remainder

being imported from New Zealand, Australia, Canada and the Irish Free State.

Doubtless it will be many years before the Dominion produce sufficient meat to minimize appreciably our dependence upon foreign countries. For chilled and frozen beef the United Kingdom relied upon Argentina and Uruguay for 10,000,000 cwt. of the 12,000,000 cwt. imported in 1928. In regard to frozen mutton and lamb, however, of the 5,624,158 cwt. imported in 1928 Australia and New Zealand were able to furnish 3,343,306 cwt. As the production of those two Dominions is certain to increase year by year, there should be a corresponding diminution of our purchases from Argentina and Uruguay.

At present there are in Australia 11,500,000 head of cattle, and 106,000,000 sheep; in New Zealand 3,273,760 head of cattle and 27,133,810 sheep; and in Canada 9,000,000 head of cattle and over 3,250,000 sheep. So far as supplies from Canada are concerned, the market for live cattle in the United States continues to be more profitable than the market for meat is in Great Britain, but it is hoped that in the coming years conditions will become more favourable, economically, to the reception of the latter.

Denmark, for obvious reasons, now supplies the United Kingdom with nearly two-thirds of her bacon requirements. Owing to the proximity of Denmark to the British market, Canada, the only distant Dominion from which larger supplies can be expected, is at a disadvantage geographically; but there is no reason why infinitely larger quantities cannot be imported, in time, from the Irish Free State. Indeed, the latter is so improving her sales to us that in five years' time she should be the leading Empire contributor to our needs, especially if imports from Canada continue to decline at the same rate as they did in 1928 compared with the previous year.

**SUGAR.** Sugar is an important food commodity for which we rely upon foreign countries to a much larger

extent than would be the case if fuller advantage were taken of the facilities for production within the Empire. Of our imports of refined sugar and sugar candy in 1928, valued at £3,645,509, only £113,607 worth was of Empire origin. Of the unrefined sugar imported in the same year, valued at £23,372,344, less than £10,000,000 worth emanated from countries within the Empire.

While the chief source of our supplies is Mauritius, wherein production can still be considerably increased, no reason has been advanced why larger quantities cannot be drawn, in time, from other Empire sources, except, of course, the all-important economic reason which can be dealt with only if Great Britain resolves to adopt measures favourable to Empire as against foreign producers.

The British West Indies, British Guiana, Canada, Australia, Natal, British East Africa, British Malaya, and even Great Britain are capable of considerably extending their acreages under sugar, and a marked development will doubtless take place during the next few years. In regard to the beet-sugar industry in England, however, it is to be hoped that the farmers will receive fair treatment from the owners of the sugar plants lest this comparatively recently established industry should be crippled in the early stages of its development.

India is the largest sugar-producing country of the Empire. Approximately 3,000,000 acres are under sugarcane, from which the annual yield invariably exceeds 3,000,000 tons. Only a few tons are available for export on account of the huge demand at home.

Canada continues to extend its acreages devoted to beet cultivation in Ontario and Alberta, the former province in particular, which, in 1928, furnished quite five-sixths of the Dominion's total production of refined beet sugar. Irrigation is proceeding in Southern Alberta, and with its extension there will undoubtedly be an expansion of beet growing and sugar manufacturing.

Australia is determined to extend its acreages under cane. In 1928 we received therefrom over 3,000,000

cwt. of unrefined sugar, which is remarkable in view of the fact that until quite recently the country was not only unable to meet its home demand, but had to import some thousands of tons. The estimated total yield of cane sugar in the fiscal year 1928-29 was 12,320,000 centals, an increase on the preceding year's yield of about 800,000 centals.

In parts of South Africa the cultivation of sugar-cane is not an unimportant industry. Indeed, its progress has been so marked recently that the country was able to export in 1928 fully one-fifth of its production of 310,000 tons.

In Natal and Zululand nearly 280,000 acres are under cultivation, and it is intended to increase the acreage in view of the success of the industry.

Excellent sugar-cane is produced in British Guiana and if the proper sort of encouragement is extended to the industry by Great Britain a much larger area will be brought under cultivation. In 1928 this colony exported 114,687 tons of sugar, an increase of 5,000 tons over that of the previous year.

From the British West Indies we bought 2,772,392 cwt. of unrefined sugar in 1928, which was nearly 1,000,000 cwt. more than we took in 1927. For several decades before the war, the sugar industry of the islands had declined enormously for well-known reasons, the main one being the strength of the beet-sugar competition of Continental countries. It is gratifying to observe, however, that since the granting of a small preferential tariff and the more valuable preference extended by Canada, a considerable improvement in the industry has taken place.

This is not the place in which to unfold the mysterious history of the sugar question in the United Kingdom from the time when it first figured in our tables of imports. As no country could possibly be proud of it, the less is written about it the better. One is justified in wondering, however, whether the successive Governments of Great

## RESOURCES OF THE EMPIRE: FOODSTUFFS 39

Britain will continue to commit blunder after blunder whenever the question of Empire-grown versus foreign sugar is under discussion. If one party gives a fillip to Empire production by a preferential tariff, it seems to be the ambition of a second party to retard it by rescinding the preference. While this bickering is in progress the United States continues to grant free entry to sugar from Hawaii, Porto Rico, and the Philippines, as well as a 20 per cent. preference to Cuban sugar, with the result that she now controls over one-third of the world's output. When it is borne in mind that under the influence of the United States the Cuban output has increased by 100 per cent. during the past fifteen years, while the output of the British West Indies has grown by less than 25 per cent., it can hardly be contended that Great Britain has made the best of her opportunities.

As sugar is one of the Empire commodities to which Britain extends a preferential duty, it is worth while to observe that the Empire contribution to the United Kingdom's imports in 1880 was 24 per cent. This contribution had declined by 1914 to 8.5 per cent., but by the end of 1926 it had risen to 32 per cent., and to over 40 per cent. at the end of 1927. From the first year of the preference, 1920, imports of overseas Empire sugar advanced from 297,423 tons to 584,212 tons in 1926.

**FRUIT.** Another item of significance in the annual imports of the United Kingdom is fruit, fresh, dried and preserved. Yearly purchases are valued at approximately £50,000,000, more than three-quarters of which amount is paid to foreign countries and less than one-quarter to countries within the Empire. Everyone conversant with the subject is convinced that there exists great scope for an extension of imports from Empire sources. With the probable exceptions of grapes and oranges, there is no reason why the major portion of supplies at present drawn from foreign countries should not be derived from various parts of the overseas Empire.



The Imperial Economic Committee, in their Report on Fruit (1926), made several practical suggestions for the development of trade within the Empire, one of which consists in an appeal to consumers for voluntary preference. This appeal, however, is not likely to be very effective until the public is better educated on the subject. The most potent suggestion, that of customs preference, had to be ignored, as it was agreed at the Imperial Conference of 1923 that this form of preference "should not come within the purview of the Imperial Economic Committee."

The imports of apples from the United States are usually one-third greater than our imports from all British territories. If inducements were offered to growers in Canada, that Dominion would in a short time be capable of producing all the apples needed to supplement our home production between September and April. Canada, however, finds it difficult to produce at a profit, inasmuch as the growers' monetary returns are so small by the time they have discharged the costs of placing the fruit in the hands of the British retailers. Growers of the United States have an advantage over the Canadian growers in that an enormous domestic demand enables them to accept a lower margin of profit in foreign markets. Apart from customs preference, however, the Canadians may hope for a more profitable outlet in Great Britain if they succeed in organizing distribution in the British market on terms more favourable to themselves. The matter has been engaging their attention during the past four or five years, and they are hopeful of reducing considerably the extravagant and unwarranted charges exacted for distribution from the ship to the retailer.

The soil and climate of Australia are so favourable to fruit culture that practically every commercial fruit is produced. Tasmanian apples are well known on the British market. The exports of apples in 1928 were valued at £1,636,000, and the bulk came to the United

Kingdom. Australia and New Zealand are fortunately placed in regard to the British market, inasmuch as their fruits reach it at a time when there is practically no competition with either the United States or Canada, at least so far as apples are concerned.

South Africa is developing its export trade in apples, but at the moment it is not large.

Very large quantities of citrous fruits, oranges, lemons, limes and grape fruit are annually brought in from alien sources. The subject is far too large and complex to deal with adequately in a few paragraphs. It is conceded by students of this branch of our import trade that much bigger supplies might be obtained in time from Empire countries. Unfortunately, little encouragement has been proffered to the West Indies, Australia, and Africa to produce and market those fruits. Foreign competition is formidable, especially in oranges, lemons, and grape fruit. The proximity of Spain and Italy to the British market is a serious handicap to the growers in the distant Dominions and Colonies, and it may be, in the absence of fiscal preferences, that very little progress is possible. However, the question is receiving the attention of the Imperial Economic Committee, and everything possible will be done to develop this branch of the fruit industry in the interests of the Empire.

Much progress is being made in the Union of South Africa, and it is expected that the fruit-growing industry will move forward rapidly. Oranges, pears, peaches and pineapples do remarkably well, as do also plums and grapes. The exports in the year 1928 were: citrous fruits, £373,105; deciduous, £302,779; grapes, £153,392; other fruits, £4,507.

In British Malaya pineapple culture flourishes, and there is a canning industry which exports annually fruit of the value of nearly £1,000,000.

In the various islands of the West Indies quite large quantities of bananas, oranges and grape fruit are grown

and exported. In the colony of British Honduras the grape fruit growers are anticipating a large extension of their industry. In 1928 over 17,000,000 bananas and nearly 10,000,000 oranges were exported. As direct shipments to the United Kingdom are now being made, further progress in the industry seems assured.

The banana industry is also making headway in Fiji. In 1928 its exports were valued at £147,781.

Another considerable item in our fruit imports is that of dried vine fruits—currants, raisins and sultanas. The annual imports are seldom less than 2,500,000 cwt. About 85 per cent. of the currants are imported from Greece, and over 60 per cent. of the raisins and sultanas are brought in from Turkey, Greece, Spain, and the United States of America. The cost of labour in Australia, combined with the poorer quality of its product in comparison with that of Greece, may prevent the growth of the currant industry in that far Dominion; but so successful have the growers of sultanas been in the British market during the past five years that we may anticipate, not only permanency for this trade, but an even greater expansion of it year by year. If the Australians succeed in producing a currant equal to the product of Greece, that branch of the dried fruit industry should, in time, record a growth similar to that which has characterized the sultana industry.

In the Western Province of Cape Colony there exists an extensive area of land suitable for the production of raisins and sultanas. It is reported that the acreage under cultivation of the requisite vine fruits is being rapidly extended, and that in consequence a corresponding increase of South African exports of dried fruits to Great Britain may be confidently expected.

Exports of dried fruits from Australia in the season 1927-28 were valued at nearly £2,000,000, and those of South Africa, £169,473.

There are numerous other fruits which could be profitably produced in various parts of the Empire, but their

number is too great to be chronicled here. Reference must be made to one more branch of the fruit industry, however, on account of its importance, namely, canned fruits. The sales in the United Kingdom have increased enormously during the past twenty years, and traders are of the opinion that the demand will experience continued expansion. The chief fruits canned are pears, peaches, apricots and pineapples, all of which are produced within the Empire.

Our annual imports of canned fruits are nearly 3,000,000 cwt., of an approximate value of £6,000,000. With the exception of pineapples (85 per cent. of which came from countries within the Empire in 1928), fully 90 per cent. of our supplies originate in foreign countries, mainly the United States. Of the canned pears, peaches and apricots, comparatively small quantities are imported from Canada, Australia and South Africa. Huge areas of land are available for the extension of fruit culture in those three countries, and it seems a pity that the development of such resources should be retarded and that so much money should be annually transmitted to the United States instead of being retained within the Empire.

**FISH.** If fish cannot be termed Empire commodities in the same sense as are land products, we can at least refer to the fishing industries as being one of the Empire's staple industries. From Elizabethan days down to our own time the fishing industry has been an invaluable direct asset as furnishing food and employment for our people and an indirect asset of even greater value as providing a training ground for the men of the Royal Navy and the Mercantile Marine.

It has been estimated that the whole of the Empire's annual catch cannot be less than £50,000,000 in value, more than half of which is taken by United Kingdom vessels. In addition, very large quantities are imported in a fresh, salted, or canned condition. In 1928 our imports exceeded in value £13,000,000, the canned

product accounting for £7,396,878, fresh fish for £4,915,105 and cured or salted for £1,194,979.

Against those huge imports must be set our exports. At present approximately one-third of the British catch (mainly herrings) is exported. Efforts have been made to increase our export trade during recent years, but it seems doubtful whether we can extend our sales to any appreciable extent. Much depends upon our ability to meet competition, and still more upon the rise or fall in the consumption of fish, which is so subject to the substitution of other foods.

The largest production of any country in the Empire is in Canada. The yield in 1928 was valued at over £10,000,000. Approximately £7,250,000 represented the value of the exports. Although the bulk of the fish was taken from the Atlantic and the Pacific, the inland waters contributed about £1,200,000 to the value of the total catch.

The salmon pack of the Pacific Coast was valued at £2,850,000, and the landings of halibut at Prince Rupert were the largest on record. The salted herring industry continues to make headway, the annual output being valued at over £200,000.

According to the latest statistics available, the capital invested in the industry exceeds £10,000,000, and over 80,000 people are directly employed in various branches of the industry.

The majority of the 250,000 inhabitants of Newfoundland depend upon the fisheries for a livelihood. During the fiscal year 1927-28 the exports of all fish products exceeded £3,000,000 in value. The chief market is the United States, but enormous quantities of dried codfish are sent to Brazil, the West Indies, Spain, Portugal and other countries. The canning industry, although not large, is important, and is likely to increase in value year by year. The lobsters are excellent, and they find a ready market.

The waters off the coasts of Newfoundland and Labrador constitute the most extensive and valuable fishing area

in the world, and have been, as history testifies, the "battle-ground" of many nations in the past. Happily all disputes are now settled in regard to fishing rights, so that the vessels of the several nations interested peacefully follow their pursuits without fear of international troubles.

Although the Union of South Africa exported crayfish of the value of £222,343 in 1928, the fishing industry, on the whole, has not been developed to any extent. Authorities on the subject state that enormous shoals of fish may be seen in the coastal waters of Africa, affording inexhaustible raw material for fishing industries in the future when development is seriously undertaken.

**TEA.** Fifty years ago the United Kingdom was importing the bulk of its tea from China, but so successful has been cultivation in India and Ceylon that China tea occupies an insignificant place in our imports at the present time. The history of tea cultivation in India provides a romantic story. It is less than a century since initial experiments were made there. In 1927 no less than 723,000 acres were under tea, and the yield thereof was 390,920,000 lb., all black, with the exception of about 4,000,000 lb. The most prolific regions are Assam, North Bengal, and the Malabar Coast, the contributions of each area to the foregoing total yield being, respectively, 235,880,000 lb., 98,000,000 lb., and 53,000,000 lb. approximately.

No less astonishing is the evolution of the industry in Ceylon. So rapid has been its growth that the country now has over 440,000 acres under tea cultivation. The exports in 1928 were 236,479,000 lb., of which quantity the United Kingdom took nearly two-thirds.

The only other parts of the Empire in which tea is produced on a scale large enough to permit exports are Nyasaland and the Union of South Africa, but their combined shipments were only 1,500,000 lb. in the latest year statistically recorded.

The United Kingdom continues to receive fairly large consignments from Java and the Netherlands—71,524,392 lb. in 1928—but it is gratifying to observe that of the total imports of 509,975,917 lb., valued at £35,779,931 in the same year, over 80 per cent. came from Empire sources.

**COFFEE.** The progress of coffee cultivation within the British Empire has been no less remarkable than that of tea, although, as one would expect from the larger consumption of the latter, the quantities produced annually are not nearly so large. In 1920 the United Kingdom's imports of Empire-grown coffee were one-third of the total quantity brought in. At the present time they are nearly one-half.

Central America is the chief source of our foreign supplies, the purchases therefrom in 1928 being 317,171 cwt. of the total foreign imports of 411,546 cwt. As the purchases from British East Africa were 262,474 cwt., it will be seen that the United Kingdom is now drawing almost as large quantities from that source as from Central America. The rich soil of British East Africa yields excellent coffee, and if the product continues to appeal to the British palate, as it certainly has done during the last ten years, there will undoubtedly be a very much smaller proportion of our imports drawn from Latin-American countries in the future.

Kenya Colony not only has large areas now under cultivation, but also young plantations springing up to meet future needs. In Tanganyika there are extensive regions under coffee, and smaller areas in Uganda. In Nyasaland the industry has not made much progress, and there are no indications that the acreage will be considerably increased at least for some time.

The area under coffee in India is much more extensive than it is in British East Africa, but the chief market for the product is on the Continent. In 1928 the exports were 254,964 cwt., of which quantity only about 25 per cent. was sent to the United Kingdom.

The production of coffee in Jamaica is by no means inconsiderable, the exports in 1928 being 8,770,000 lb. However, only a comparatively small proportion was exported to the United Kingdom. In the other West Indian islands, Trinidad and Dominica, there are small coffee-growing industries. British Guiana has great possibilities, and it is apparent that they are not being neglected. In 1928 her exports of 919,775 lb. were more than double those of the preceding year.

**COCOA.** Great changes have taken place in the cocoa industry within the life of the present generation. Indeed, the adoption of cocoa as a beverage in Europe is a phenomenon of comparatively recent origin. In the early years of its introduction to the United Kingdom and for some time afterwards, supplies were drawn almost exclusively from Brazil, Ecuador, and Venezuela. Fifteen years ago two-thirds of our imports came from those countries, but in 1928, of the total imports of 1,266,848 cwt., no less than 1,187,868 cwt. were of Empire origin. These statistics show the greatness of the change in the source of our imports and the magnitude assumed by the cocoa industry of the Empire. It is in the Gold Coast Colony that this remarkable progress is recorded. To the adaptability and industry of the natives of the West African coast the cocoa industry furnishes an excellent testimony. From an export trade valued at less than £100 forty years ago production has made such progress that in 1928 the exports were 219,843 tons, valued at £11,029,172.

In Nigeria there is a flourishing cocoa industry which is likely to make still further progress. The country's exports at present are about 50,000 tons a year. Sierra Leone has a small area under cocoa, and it is considered to be capable of greater development. The industry in Ceylon enables the producers to export about 70,000 cwt. a year. From the British West Indies the United Kingdom received 77,000 cwt. of cocoa in 1928, chiefly from Grenada, Trinidad, and St. Lucia.



**SPICES.** The spice industries of the Empire are by no means insignificant. On the contrary, several of them are very important units in the economic life of India, Ceylon, the Straits Settlements, West Africa, and the British West Indies. The annual imports of the United Kingdom are valued at several millions of pounds, not all of which are retained for home consumption, however, as quite a large re-export trade is done in pepper and cloves particularly.

Pepper is produced in India, Ceylon, the Straits Settlements, Kenya, Sarawak, and the British West Indies. The United Kingdom's supplies are drawn chiefly from the Straits Settlements. Imports in 1928 were 110,960 cwt., valued at £974,648. This quantity was less than half of that imported in 1927.

Cloves are produced in Ceylon, British Malaya, and the Zanzibar Protectorate. In the last-named country production in 1928 was 158,000 cwt. Apparently the yield varies from year to year, as the quantity produced in 1927 was 110,000 cwt. greater than in the succeeding year. This spice is in much demand as a flavouring agent in all parts of the world, and consumption is likely to increase rather than decrease.

Ginger is produced on a large scale in certain parts of the Empire, notably in India, West Africa, and the British West Indies. Our imports vary in quantity from year to year, but the average is about 40,000 cwt. Production can be considerably extended when necessary in India, Sierra Leone, and Jamaica. Probably the finest ginger in the world comes from Jamaica. In 1928 that country was able to export 2,407,552 lb.

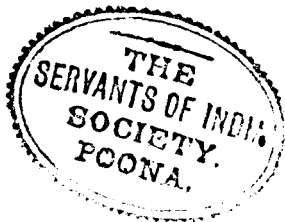
Cinnamon is a popular spice in all parts of the world. It is the product of a tree technically known as *Cinnamomum zeylanicum*, a native of Ceylon, and it grows in certain tropical and sub-tropical regions. The best cinnamon comes from Ceylon. An inferior commodity is produced in China. In 1928 the combined exports of what are known as quills and chips from Ceylon exceeded 5,000,000

lb. The United Kingdom's imports are usually over 5,000 cwt.

Nutmegs, the seeds of a small tree known as *Myristica fragrans*, are produced in British Malaya and the British West Indies, chiefly Grenada. Exports from the former in 1928 were 1,779 tons, and from the latter a little over 2,000,000 lb. Mace is also exported in fairly large quantities from Grenada.

Other spices which are produced and exported from various parts of the Empire are chillies from India, Kenya, Uganda, Tanganyika, Zanzibar, Nyasaland, and Sierra Leone; vanilla from Seychelles and Mauritius; pimento, or Jamaica pepper, from the island bearing its name; and cardamons from the Malabar Coast, islands of the Indian Sea, and Ceylon.

Foodstuffs have been dealt with at some length, not only on account of their monetary significance in the United Kingdom's imports, but because they illustrate also the adaptability of our overseas Empire for an almost unlimited production of them.



## CHAPTER IV

### RESOURCES OF THE EMPIRE—*continued*

#### (2) OILSEEDS, OIL, COTTON, WOOL, RUBBER, TOBACCO, TIMBER, MINERALS

If the European war had not taken place, it is questionable whether Great Britain would be in possession of the very large and important industries now engaged in the manufacture of oils. Be that as it may, those industries would certainly not have assumed their present magnitude. In 1914 Germany, Austria-Hungary, France and Holland, bought infinitely larger quantities of oil-seeds produced within the Empire than did Great Britain, with the result that oil-crushing industries flourished in those countries while our own plants struggled against the competition thus set up. Further, the United Kingdom was compelled to import from foreign countries large quantities of oils, feeding-cakes and allied products, manufactured from raw materials which were derived from her own tropical and other possessions. In 1913 so small were our imports of copra from India and Ceylon, of palm kernels from British West Africa, and of ground-nuts from India that there was every probability of the entire output passing into the hands of foreign countries within a few years.

So many and so varied are the uses to which vegetable oils can be put that no one can predict the magnitude and value of the industry in twenty years' time. Research work is proceeding in some of the areas of production, science is being requisitioned to discover new uses for the finished products, and to improve the methods

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and machinery employed in the extraction of oil from the raw materials.

**COCONUT OIL AND COPRA.** British Malaya and Ceylon are large producers and exporters of copra and other products of the coconut palm. In addition to the enormous quantities of copra, nuts and oil exported, Ceylon does an extensive trade in allied commodities. The quantities exported in 1928 were as follows:

Coconuts . . . . .		17,777,028
Desiccated coconut . . . . .	lb.	86,642,535
Copra . . . . .	cwt.	1,978,137
Coconut oil . . . . .	"	780,034
Coconut poonac . . . . .	"	293,130
Bristle fibre . . . . .	"	386,972
Coir yarn . . . . .	"	94,636

Although British Malaya is now the largest Empire exporter of copra, the quantity shipped in 1928 being 182,854 tons, valued at £3,985,966, there are still extensive areas of land available for the expansion of coconut palm culture. It is anticipated that this land will be required, in the not distant future, to meet the increasing world demand.

In all the islands of the British West Indies, in British Guiana and Honduras, the coconut palm flourishes. Production, especially in Jamaica and Trinidad, is well advanced, but there is still scope for improvement. From Jamaica there were shipped, in 1928, no less than 30,769,890 nuts, and 7,927,766 lb. of copra; from Trinidad, 6,799,655 nuts, and 21,351,860 lb. of copra. British Guiana exported not only 321,659 nuts, and 7,841,944 lb. of copra, but about 26,250 gallons of coconut oil. If prices continue to be favourable, and capital be available for development purposes, the output of all these colonies can be considerably increased to the benefit of all concerned.

Other parts of the Empire in which coconuts flourish are the Solomon Islands, Fiji, Tonga, Papua, the coastal regions of Kenya and Tanganyika, Uganda, Zanzibar, and a number of islands in the Indian Ocean. It is impossible to forecast the extent to which the coconut, copra and associated industries of those regions will be developed in the future, but with the assured growth of the world's consumption, there will certainly be an appreciable extension of the cultivation of the raw material, and a notable increase in the number of mills expressing oils.

**PALM OIL AND KERNELS.** In the United Kingdom's imports of vegetable oils, the oil of the palm figures almost as prominently as the oil of the coconut. A much more important trade is done in palm kernels, of course, on account of their large percentage of solid fat. The two oil products are used by manufacturers of margarine, edible fats, soap and candles. The oil of the pericarp is usually extracted at mills erected in the countries of origin, whilst the oil of the kernels is expressed in factories at Hull, Liverpool, and other centres. The residue of the kernels can be utilized in the manufacture of cattle-feeds, so that there is little, if any, waste connected with the industry.

Over two-thirds of our annual imports of palm kernels come from British West Africa. Although the quantity imported in 1928 was much less than that brought in ten years ago, it totalled 160,540 tons, of the value of £3,251,816. Nigeria and Sierra Leone are the chief sources of supply. Not all the output of those two colonies finds its way to the United Kingdom, as is obvious from statistics of their exports in 1928, which were 246,537 tons, and 67,105 tons, respectively.

The Gold Coast could quite easily extend the acreage under the oil-palm, but apparently the cocoa industry is more profitable at the moment. In 1928 the exports of palm kernels were valued at £103,905, and those of palm oil, £13,513.

In the Federated Malay States efforts are being made to extend the cultivation of the oil-palm, as it flourishes exceedingly well there. Production has increased during the last few years, and doubtless it will continue to grow from the comparatively small output in 1928 of 1,482 tons of oil and 261 tons of kernels.

**COTTON SEED AND OIL.** In 1928 our imports of cotton seed for the expression of oil were 574,535 tons, valued at £5,622,859; of refined cotton seed oil, 2,470 tons, valued at £90,409, and of the unrefined oil, 5,024 tons, valued at £173,629. This product is used by manufacturers of margarine, edible fats and soaps. India and the Sudan are the chief sources of supply, although the former country is not a large exporter, the bulk of the output being consumed in the country.

Practically the whole of the countries in British East Africa are exporters of cotton seed. During 1928 over 45,500 tons were shipped from Uganda and Kenya Colony, and 6,962 tons from Tanganyika.

Only small quantities are exported from the islands of the British West Indies, of which Grenada is the most important source.

**LINSEED AND LINSEED OIL.** These two products figure prominently in the export trade of the Empire, but it is apparent from the statistics relating to the United Kingdom's imports in 1928 that the source of our supplies is changing, especially in regard to linseed. In 1919 we imported 552,000 tons of linseed, three-fifths of which came from India. In 1928, however, of the 348,567 tons imported, valued at £5,499,412, no less than 299,435 tons were purchased from Argentina, and only 33,552 tons from India. This does not mean necessarily that India is producing less, but that she may be exporting more to other countries, or consuming more at home, or both; or it may be that Argentina quotations are frequently lower than the Indian. It is common knowledge, however, that whereas years ago India was supreme in the world's linseed

trade, she is now in the second place as exporter, Argentina being first, and in the third place as producer, Argentina being first, and the United States second.

The production of flax seed in Canada is making progress year by year, and as larger tracts of land are assigned to its cultivation they will naturally become an important asset in the Empire's production of so valuable a commodity. At present the total annual shipments from the Dominion have reached about 3,000,000 bushels, practically the whole of which goes to the United States.

Great Britain's imports of linseed oil in 1928 were 22,515 tons, valued at £687,485.

Only a small export trade in linseed is done by the Kenya Colony and Cyprus, and it is doubtful whether either of those countries will ever figure prominently among the world's producers.

**GROUND NUTS.** Although ground nuts are widely used as a food in the various countries of origin, they are imported into the United Kingdom by manufacturers of edible fats and soaps largely for their oil contents. Imports are annually increasing. In 1928 they were 121,362 tons, valued at £2,208,966.

No country in the world produces so large a quantity as India. The estimated yield in 1928 exceeded 3,000,000 tons, less than one-third of the quantity being exported. The output sprang from an area of 6,000,000 acres.

Other parts of the Empire in which ground nuts are grown and exported are British West Africa, Gambia, Malaya, Kenya Colony, Uganda, Natal, Tanganyika, and the Sudan. Small quantities are exported from the British West Indies and Australia, and also South Africa, from which much larger consignments are now confidently expected.

**RUBBER.** So valuable is this raw material, and so great is the demand for it in all manufacturing countries, that the United Kingdom is fortunate in being able to draw at least three-fourths of its needs from territories within the Empire. The consumption will surely increase,

so that our country is again fortunate in possessing so many regions in which cultivation can be extended.

The production in British Malaya has advanced enormously since 1913. In 1928 the exports of Para rubber amounted to 408,693 tons, valued at £38,475,461. It will thus be seen how valuable an asset the industry is to that country, no less than to the Empire as a whole.

In Ceylon and India production is on a large scale. From the latter country over 24,000,000 lb. was exported in 1928, while the quantity exported from Ceylon was 57,825 tons. The rubber-growing industry in that colony is now second in importance to the tea industry.

In the East and West African colonies there are established rubber-growing industries of much importance. From Nigeria rubber was exported in 1928 of the value of £255,771; from the Gold Coast, £26,268; from Kenya Colony and Uganda, £54,998; and from Tanganyika Territory, £3,538.

In British North Borneo, Brunei and Fiji, rubber-growing has passed the experimental stage of development, especially in the colony first named, which exported 6,700 tons in 1928.

**COTTON.** A glance at the statistics relating to the United Kingdom's exports of manufactured goods reveals the importance of cotton to the prosperity of the country. It may very well be that Lancashire will never again enjoy its ascendancy of pre-war days in the markets of the world. During the past twenty-five years, and more especially during the past ten years, many countries have extended their textile plants, and some of them are not only manufacturing the greater proportion of articles required for their domestic needs, but are also entering into the world's markets as competitors of the United Kingdom. No one would underestimate the seriousness of these changed and changing conditions of production. Graver still, however, is the situation regarding the production of the raw material. With the extension of spinning there may come a shortage of



cotton, followed by soaring prices, which would have a serious effect on the output of the Lancashire mills. Further, it is well known that the world's production of cotton has for some years shown a tendency to decline rather than to maintain its pre-war proportions or to expand in a measure commensurate with the continually increasing demand. There are, therefore, few questions of greater importance to the United Kingdom than the extension of cotton-growing within the Empire. Much has been accomplished recently in that direction, but still more remains to be done if the country is to reduce its reliability upon foreign countries for its raw material which, in 1928, represented 85 per cent. of our total imports of 15,057,681 centals.

Of the ten or twelve regions of the Empire in which cotton is grown, or in which cultivation is possible, India is by far the largest, and probably the most promising. The crop of the season 1928-29 was estimated at 5,638,000 bales from 26,484,000 acres, about two-thirds of the quantity being available for export.

Efforts have recently been made to improve the quality of the product with the view of shipping to Lancashire larger quantities of the types required by its spinners. American cotton will not thrive in Indian soil; consequently, anticipated improvements will be the outcome of experiments with native types of plants.

Progress in the Sudan has been most satisfactory in recent years, and undoubtedly cultivation will be further extended. Improved transport facilities are essential in the whole of British East Africa, and attention is being given to the matter by those who grasp the opportunities existing for an expansion of the cotton-growing industry. Schemes for the extension of irrigation are either under construction or are contemplated. It is hoped that in due course at least one million bales of cotton will be forthcoming from the Sudan, and if, as is anticipated, the long-stapled variety produced should be equal in quality to the Egyptian, the value of the industry to

the natives and to Lancashire will be incalculable. The crop for the season 1928-29 was estimated at 161,902 bales of 400 lb. each.

A most promising region for the cultivation, reputed to be superior in quality to much of the United States product, is Nigeria. Some authorities contend that the colony is capable of yielding from one to two million bales a year. At present there exist neither road nor rail transport facilities adequate to meet an extension of cultivation, but it is believed that these will be improved year by year and that transportation rates will be so arranged as to assist the industry. The colony has a native population of approximately 17,000,000, so that labour is plentiful, and of a type conducive to the prosecution of the cotton industry.

In Tanganyika the industry is soundly established. Although the annual exports do not exceed 100,000 centals, the territory is capable of yielding at least a quarter of a million bales.

In the Transvaal, Swaziland, Zululand, and near the coast of Natal, there are lands of limited promise. Some progress has been made, and experiments as well as scientific research work are being undertaken with vigour. At present the production is comparatively meagre, the exports for the whole of South Africa in 1928 being only 4,444,332 lb.

Nyasaland holds out some prospect of increased cultivation, especially if cheaper and better transportation facilities be provided. The most promising regions are along the Shire River from Lake Nyasa to the Zambesi. During the war, Nyasaland's exports approximated 3,500,000 lb., but in 1928 they had fallen to 1,785,611 lb.

In Australia areas suitable for cotton-growing are numerous and extensive, especially in Queensland. The production at present is not large, and there is some doubt whether it will be possible to increase it in the absence of cheap labour such as is obtainable in other parts of the Empire. White labour is naturally dearer

than coloured labour, and in Australia the price of the former is more pronounced than in any other cotton-growing country under the British flag. Unless cotton stands at an unusually high price in the coming years, it will not be possible for Australian growers to export on a profitable basis.

A number of the islands of the British West Indies produce what is known as Sea Island cotton, a highly-prized variety, and costly on that account. In 1928 the exports of this product from Antigua were 17,700 lb.; from Barbados, 14,249 lb.; from Montserrat, 38,086 lb.; from St. Kitts, Nevis, 309,572 lb. and from St. Vincent, 110,728 lb. In addition, Grenada, St. Vincent, and Montserrat exported Marie Galante cotton to the extent of 350,000 lb. approximately.

**WOOL.** A gratifying feature of the United Kingdom's imports of lambs' and sheep's wool is the large quantity that comes from countries within the Empire. In 1928, of the value of our total imports, £60,566,674, just under £49,000,000 was spent on the Empire product. The quantities represented in the values were 6,350,853 centals from Empire sources, and 1,456,288 centals from foreign countries.

Australia continues to be the chief source of our supplies, with New Zealand, South Africa, India, the Irish Free State, the Falkland Islands, and Kenya Colony following in the order given. There is also, of course, a large wool production in Great Britain to be taken into consideration.

No country in the world produces so much wool as does Australia. The annual production is about 600,000,000 lb., and although prices fluctuate, this output is usually worth £60,000,000. So large is the present clip that it requires imagination to foresee any possibility of augmenting it. Yet there are still vast tracts of unoccupied territory wherein the pastoral industry can be enormously extended as soon as Australia has the necessary population for that purpose.

Of the quality of the Australian fleece it is unnecessary to speak here. The world is familiar with the product, and buyers in Europe are always eager to purchase it on that account. With the development of manufacturing in the Far East, there is certain to come an increasing demand for Australian wool because of the country's proximity to those markets. For example, Japan's purchases twenty years ago were less than 500,000 lb., but the progress made in the manufacturing of woollen goods during that period has brought her purchases to over 5,000,000 lb. at the present time.

Although the frozen mutton industry of New Zealand closely approaches in value that of wool-growing, the latter continues to be the principal source of income to the country. The woollen manufacturing industry, too, like that of Australia, is soundly established, and of no mean size. Its production of tweeds, cloths, flannels, and other articles, is now valued at quite £1,250,000 a year. In 1928 the exports of wool were 657,849 bales, of the value of £16,679,098. The value of the industry to New Zealand is apparent in that it represents nearly 30 per cent. of the country's export trade. The chief sheep-raising districts are Hawke's Bay, Wellington, Canterbury, and Otago.

Other wool-producing countries in the Empire of particular importance, and their exports in 1928, are—South Africa, exports of greasy wool, 246,877,369 lb. (£15,975,812), scoured wool, 6,629,595 lb. (£875,539); India, 57,649,433 lb. (Rs. 4,91,58,651); Kenya Colony, 7,899 cwt. (£103,040); and Falkland Islands (1927), 3,972,509 lb. (£236,028).

Canada, although consuming the greater part of its production at home, is usually in a position to export from 6,000,000 lb. to 12,000,000 lb. annually.

Progress is very marked in South Africa, and the near future cannot fail to record a considerable addition to her existing flocks, which exceed 40,000,000, or rather more than a third of the number in Australia,

and nearly a third greater than the number in New Zealand.

**TOBACCO.** In 1913 our purchases of Empire tobacco were little more than 1 per cent. of the total imports; in 1928 they were practically 20 per cent. This is a very encouraging increase. However, when we consider that the Empire contains some millions of acres of soil suitable for tobacco culture, the surprising thing is, not the quantity being produced, but the enormous proportion of our imports that is drawn from foreign countries. As the United Kingdom's total imports of unmanufactured tobacco in 1928 were 219,530,512 lb., valued at £16,505,133, it will be seen how great are the possibilities for an extension of trade within the Empire. No one is ignorant of the fact, of course, that it would be difficult, and in some instances impossible, for Empire tobacco cultivators to replace such high-class products as the Sumatra leaf, the Havana aroma, and the richest Virginian brands. At the same time, experts are of the opinion that tobacco equal in quality to the usual run of American might be grown in several parts of the Empire.

Nyasaland, as it is the largest contributor to our supplies from Empire countries, is also the most promising region of the future. Exports in 1928 amounted to 11,632,497 lb.

India has over 1,000,000 acres devoted to tobacco cultivation, but as the domestic demand is very great, the United Kingdom cannot expect to draw any considerable quantity therefrom for many years. The bulk of the leaf is grown in Bengal and Madras. The quantity of unmanufactured tobacco exported in 1928 was 30,701,796 lb., of manufactured, 1,100,732 lb. Large quantities were sent to the Straits Settlements, China, and the Netherlands, but the greater proportion came to the United Kingdom, some for smoking purposes, and some for tanning.

In Southern Rhodesia cultivation has been greatly

extended during the past ten years. Indeed it would seem that production is now greater than the capacity of the market to absorb it. A wide advertising campaign in the United Kingdom has enhanced the demand, and it is hoped that consumers will continue to encourage the growers by purchasing this Empire product in preference to the foreign commodity. It will be a pity if cultivation is retarded for want of an adequate outlet in the United Kingdom. In 1928 the exports were valued at £591,475 which was £85,000 less than in the preceding year.

Exports of tobacco from the Union of South Africa are not yet large, but the demand for the better grades is increasing in the United Kingdom. The crop for 1928-29 was estimated at 16,500,000 lb.

In the following regions of Canada—the St. Lawrence River valley, south-west Ontario, and British Columbia, tobacco is so successfully grown that the annual output has exceeded 40,000,000 lb., about one-sixth of which is exported.

Production in Australia is not large, and there is some doubt regarding the future of the industry. Strenuous efforts are being made to improve the quality of the product, and even to enlarge the output. In the fiscal year 1927-28 the exports of manufactured tobacco were 2,080,047 lb., valued at £448,359.

Small quantities of tobacco are exported from Ceylon, Mauritius, British North Borneo, and Cyprus.

**TIMBER.** Next to food and clothing there is probably no product more necessary to human existence than timber. Unlike those two commodities, the raw materials of which nature renews annually, or oftener, trees require many years to replace, no matter how favourable to their growth the soil and climate may be. Every student of forestry knows that the merchant timbers of the world have been mercilessly slaughtered during the past two hundred years, that in some instances no effort has been made to re-forest the depleted areas, and that where re-afforestation schemes are in force, the replacements

are wholly incommensurate with the depletion. There are no reliable estimates of the world's standing timber, but with regard to the Empire it is estimated that the total forest area is not less than 1,900,000 square miles, the present merchantable area being about one-third of the whole. The timber standing in the forests is stated to be approximately 185,800,000,000 cubic feet of softwoods, and 200,500,000,000 cubic feet of hardwoods. The annual fellings are more difficult to estimate, but they are officially recorded as approximating 3,600,000,000 cubic feet, 2,000,000,000 cubic feet being softwoods, and the balance hardwoods.

In 1928 our imports of wood and timber exceeded £42,565,000 in value. Of the softwoods imported only 10 per cent. came from countries within the Empire, and of the hardwoods the Empire furnished 30 per cent., half of that proportion being represented by Indian teak. While it has to be admitted that the Baltic countries possess an advantage in their proximity to the British market, thus handicapping the more distant Empire sources of softwoods—fir, spruce, pine—the largest items in our imports, there seems to be no reason why hardwoods cannot be imported to a greater extent from parts of the Empire not subject to a similar handicap.

Canada is the largest producer of timber in the Empire, and the chief Empire contributor to our annual imports. It is estimated that the merchantable timber of the Dominion covers at least 250,000,000 acres, with additional acreages of timber convertible into pulp. Of this total area, about 100,000,000 acres are in Quebec, 70,000,000 in Ontario, and 50,000,000 in British Columbia. In the last-named province are produced the biggest quantities of sawn timber.

In 1928 Canada's exports of unmanufactured or partly manufactured wood, consisting mainly of planks, boards, square timber, laths, shingles, logs and pulpwood, were valued at nearly £20,000,000. The United States, as one would expect, took the bulk of the supply, as well as 75

per cent. of the exports of manufactured wood (inclusive of wood pulp), valued at £9,550,000.

Although the resources of timber available in Australia and New Zealand are meagre in comparison with many other countries, the areas under merchantable wood are far from negligible. Reckless felling in the past has, of course, played havoc with the forests, and unless re-afforestation is pursued, or the annual cut is curtailed, the time is not far distant when both countries will be depleted of certain kinds of timber, particularly softwoods. In Australia there are said to be about 60,000 square miles of forest lands, of which 10,000 square miles contain merchantable timber. The chief trees are walnut, black bean, silky oak, mountain ash, Tasmanian oak and myrtle, West Australian jarrah and karri, and sandalwood. Many of these timbers have recently found favour in the United Kingdom, and imports of them are likely to increase. The Australian exports in 1927-28 were valued at £1,317,818. Against this must be set the imports of wood which are frequently much greater in value than the country's exports.

Not more than 2,000 square miles in New Zealand are covered with merchantable timber, such as kauri pine, red and white pine, and beech. In 1928 the exports of sawn timber were valued at £376,756. It is improbable that these exports will be maintained at their present figure, as the forests have been drained so heavily in the past. In order to safeguard supplies for the future, New Zealand is conserving her resources, and also undertaking a big scheme of re-afforestation.

Large supplies of hardwood, such as teak, mahogany, rosewood and sandalwood, exist in the 250,000 square miles of timber lands in India under the control of the Forest Department. The timber industry yields a big revenue to the State. Teak, of Burma origin, is the chief wood exported. The annual exports are usually over 50,000 cubic tons. Teak will always find a ready external market on account of its superiority to oak



and all other kinds of timber used for constructional purposes. About 1,000 tons of sandalwood are exported annually.

Other parts of the Empire in which there exist extensive supplies of timber are British Guiana, of which 85 per cent. is forest land, British Honduras, the Bahamas, Newfoundland, the Gold Coast, Nigeria, Kenya Colony, Tanganyika, and British North Borneo. In the Union of South Africa there are not more than 2,500 square miles of forest lands; consequently the country is likely to remain an importer rather than an exporter, so far as the woods of commerce are concerned.

**WOOD PULP.** The production of, and the demand for, wood pulp have become so important in modern commerce, and are destined to exercise so remarkable an effect upon the world's timber resources, that some reference should be made to the subject at this point. So great is the demand for this product that, if it continues, it must inevitably work disaster among the forests of the Empire in particular. It is evident that Canada, for example, cannot continue to augment its output year after year at the same rate as she has done during the past ten years without gravely injuring her own interests and those of the entire Empire. Enormous areas of forest lands have already been depleted, with the result that the fellers of timber are compelled to push further north every decade for supplies. It takes very many years for young trees to attain to the size requisite for felling, so that a re-forestation scheme, on however large a scale, cannot relieve the situation for a very long time. The alternative, in order to produce immediate benefit, is to regulate the annual cut.

In 1913 Canada's output of newsprint did not exceed 350,000 tons; by 1928 it had reached 2,381,000, or over one-third of the world's total production. At the present time the mills are capable of producing 10,000 tons daily, and reports are to hand that this capacity is to be increased in 1929 and 1930. The Dominion's exports in 1928 were

92 per cent. of the output. Only 10 per cent. of that quantity went to countries other than the United States.

Some idea of the magnitude and value of Canada's pulp and paper industry may be gathered from the exports of 1928, which were valued at—wood pulp, £9,100,000, and paper, £29,400,000 approximately.

Since 1909 the Dominion of Newfoundland has been an exporter of wood pulp and newsprint. The shipments of the former, however, are becoming smaller every year on account of the larger quantities of newsprint being produced. In 1928 the exports of newsprint were approximately 185,000 tons. Large and flourishing mills are established in the country, the output of which is continually increasing.

**MINERALS.** In the space available it is impossible to deal fully with the immense and varied mineral resources of the Empire, especially as practically every known mineral is found in some region or other under the British flag. Therefore only the more important minerals and metals will be referred to, and the references must be concise.

Fortunately for the British Empire, its mineral lands have not been "bled to death." With the probable exceptions of gold, silver, manganese and chromium ores, the deposits have not been exploited to any great extent. Further, there are enormous discoveries yet to be made in regions known to indicate the existence of valuable ores. If Great Britain has failed to develop the Empire's resources on a scale which might have been expected of her, she may accept the neglect with some measure of satisfaction, inasmuch as these riches still exist for future needs, while the ores of foreign countries have become depleted to a large extent by drainage in the past. During the next twenty years there is sure to take place a speeding up of prospecting and exploiting on virgin ground, as well as an extended development of regions already tapped and approved.

**GOLD.** Although for generations the Empire has been explored and exploited for gold, it continues to hold its own as the world's chief producer, furnishing 75 per cent. of the world's total output. Practically every part of the overseas Empire contributes to the maintenance of that position. The Empire's, as well as the world's, largest source of supply is the Transvaal. In 1928 the production of South Africa was 10,354,264 fine ounces, valued at £43,982,119.

The output of Canada in the same year was 1,852,785 fine ounces, valued at about £7,800,000. Of this total yield Ontario furnished 84 per cent., drawn mainly from the Porcupine and Kirkland Lake districts. The yield of British Columbia was 10 per cent. of the total.

Australia occupies third position among the Empire's sources of supply. About 80 per cent. of the production comes from Western Australia, the mines of which, in 1928, yielded gold of the value of £1,671,000.

In Southern Rhodesia the yield in 1928 was 244,609 fine ounces. In India it was 384,272 ounces. New Zealand's annual output is valued at approximately £500,000.

Other parts of the Empire in which gold is produced are the Gold Coast, Federated Malay States, Nigeria, and British Guiana.

**SILVER AND LEAD.** The total production of silver in the Empire fluctuates from year to year, but it generally runs from thirty to forty million ounces. Prices move quite frequently, too, so that it is difficult to arrive at a reliable valuation of the output. The largest producers in the world are the United States, and Mexico. Canada is the third largest producer in the world, and also leads in Empire production. The output in 1928 was 21,922,795 fine ounces, valued at approximately £2,550,000.

Pure silver is found in some parts of the world, but as a rule it is associated with such metals as lead, cobalt, gold, zinc, and copper. The silver of Canada is extracted

from the primary silver ores of the Cobalt district of Ontario, and as a secondary product from lead, zinc, and sundry other ores in British Columbia mainly. Smaller quantities are produced in the Yukon Territory and Quebec.

At the Broken Hill mining field of New South Wales, Australia, there are immense deposits of lead and zinc minerals, from which as much as 15,000,000 ounces of silver have been drawn in one year. To-day, however, the production is not nearly so large.

Other rich Empire mines are located in Burma. From the Bawdwin mines of that region 6,000,000 ounces were produced in 1928, of the value of £700,000. These mines still hold over 4,000,000 tons of proved ore for future use.

The United Kingdom's imports of sheet and pig lead in 1928 were 262,137 tons, valued at £5,570,613, more than half of which came from foreign countries.

Australia is the largest supplier of lead within the Empire. About two-thirds of the output is shipped to the United Kingdom, and the remainder to foreign countries. Practically the whole output is produced at the renowned Broken Hill mines.

The Canadian output of lead, which was nearly 335,000,000 lb. in 1928, is produced in British Columbia to the extent of 95 per cent. of the country's yield. In that province is located the world's biggest silver-lead-zinc mine, known as the Sullivan. The concentrates of this mine are sent to the big smelting plant at Trail for treatment.

Other lead mines of the Empire are situated in Burma, producing about 10,000 tons a year; and in Southern Rhodesia, which country has continued to increase its output since mining began there in 1914.

**PLATINUM.** Only quite recently has any considerable quantity of this valuable metal been forthcoming from Empire sources. Even at the present time the production is comparatively small. Canada produces it

in small quantities in British Columbia, and in the Sudbury district of Ontario. The total output of Canada in 1928 was 10,452 fine ounces.

Deposits exist in Australia, New Zealand, South Africa, and India, but the majority of them are not large. South Africa is increasing its output. In 1928 it was 17,827 ounces, valued at £241,110.

**COPPER.** The British Empire does not contribute more than one-tenth to the world's total production of copper. Of its imports of copper bars, blocks, slabs, ingots and cakes, amounting to 150,460 tons in 1928, the United Kingdom drew about 3,000 tons from Empire countries, but of the 46,313 tons of copper imported, 25,413 tons came from Canada.

There is no doubt that Canada will ultimately improve her position among the world's producers. At present she occupies the fourth place. Mining experts in Canada maintain that in twenty years she will occupy first place. The chief worked deposits are in British Columbia, the next in importance being located at Sudbury, Ontario. It is said that at least 16,000,000 tons of ore exist in Northern Manitoba awaiting development. In 1928 the total output of Canada was over 100,000 tons, or one-third more than the output of the previous year.

Copper is produced on a fairly large scale in Rhodesia, the Union of South Africa, and India, and in a smaller degree in Australia, Newfoundland, Papua, and Cyprus.

**ZINC.** The world's greatest producers of zinc are the United States, Germany, and Belgium. Within the Empire the chief sources of supply are Canada, Australia, and India. Certain quantities are also being produced in Northern Rhodesia. Ten years ago the output of Australia was greater than that of Canada, but to-day Canada is leading, and ranks sixth among the world's producers. The bulk of the Canadian product comes from British Columbia. In 1928 the total output was valued at slightly over £2,000,000. The exports were valued at £1,650,000.

The production of Australia comes chiefly from the Broken Hill mines. In 1928 the Commonwealth was able to export zinc bars and blocks to the value of £1,000,000.

In the Northern Shan States of India the output of zinc concentrates is about 60,000 tons a year.

From the rich zinc deposits of Broken Hill, in Northern Rhodesia, an annually increasing production is anticipated.

**TIN.** Nearly 50 per cent. of the world's output of tin is produced within the British Empire, which is due entirely to the development of mining in the Federated Malay States. In 1928 nearly 62,000 tons of tin and tin ore were produced there, and the value of the exports exceeded £13,000,000. Tin exists in all parts of British Malaya, the richest deposits being in the Kinta Valley of Perak.

In Northern Nigeria tin mining is well established. The deposits extend nearly 9,000 square miles, and from this region there may be expected large and continuous supplies for many years. Exports at the present time exceed £2,000,000 in value yearly.

The Burma region of India produces about 4,000 tons of tin ore annually.

The Australian output comes mainly from New South Wales, and Tasmania, although tin is mined in all the States except South Australia. Exports annually exceed £400,000 in value.

The Union of South Africa is a tin ore producer, and usually exports annually over 2,000 tons.

Other territories of the Empire in which increased production may be anticipated are Swaziland, Tanganyika and Uganda.

**NICKEL.** The world's chief source of nickel supply is in the British Empire. Fully 90 per cent. of the world's production comes from the Sudbury district of Ontario, Canada. Every year witnesses an increase of the output which, in 1928, amounted to 96,755,578 lb., valued at

approximately £4,500,000. This was an increase of 30,000,000 lb. over the preceding year. The United States is Canada's chief market for the product.

**MANGANESE.** India and the Gold Coast contain the largest deposits of manganese ore in the Empire. The quantity mined in India exceeds 1,000,000 tons annually. The production in the Gold Coast enabled the colony to export 324,500 tons in 1928.

Large deposits of ore are known to exist in South Africa, Australia, and Canada, although they have not been developed to any great extent.

**IRON.** Of the 4,382,604 tons of iron ore imported by the United Kingdom in 1928, less than 50,000 tons came from Empire sources. Whether larger supplies can be drawn from Empire countries in the future depends more upon the ability of the latter to compete with foreign suppliers in proximity to Great Britain than upon the absence of supplies of ores. In Canada and Newfoundland there are large deposits, but little, if any, of the ore is exported to the United Kingdom. In Australia there lie iron-ore reserves of hundreds of millions of tons, and in South Africa there are large and rich deposits. India is increasing its production yearly. In 1928 that country exported 428,625 tons of pig-iron, 75 per cent. of which went to Japan. India is using quite half of her production at home, where the iron and steel plants cannot fail to increase in number and size.

There are also deposits of good iron ore in British Malaya, Ceylon, Sierra Leone, and New Zealand.

**COAL.** In addition to the coal beds of Great Britain there are several enormous fields in parts of the overseas Empire, notably in Canada and Australia. In the former Dominion, according to official reports, the coalfields contain 200,000,000,000 tons of bituminous coal, and 70,000,000,000 tons of anthracite. The output in 1928 was 17,554,293 tons, valued at approximately £12,500,000. Four large fields are situated in the eastern province of Nova Scotia. In the prairie Provinces deposits extend

for many miles, but the chief mines now being worked are at Edmonton, Lethbridge, Calgary, and the Crow's Nest Pass, in Alberta. In the western province of British Columbia there are some 73,000,000,000 tons, the greater part of which is bituminous. The main fields are the Crow's Nest Pass (stretching into Alberta), Nicola River, Vancouver Island, and the Queen Charlotte Islands.

The deposits of Australia are chiefly located in New South Wales, the smaller fields being in Victoria, Queensland, Western Australia, and Tasmania. The New South Wales production is nearly 12,000,000 tons a year.

The output of the coal-fields of India exceeds 20,000,000 tons a year. Coal is distributed throughout the country, but 80 per cent. of the total yield comes from the mines of Raniganj and Jherri, the former lying in the Burdwan district of Bengal, and the latter in the province of Bilchar.

The coal-mining industry of New Zealand is large enough to supply the home market, and also to export about 130,000 tons per annum.

In several regions of South Africa coal deposits are plentiful. The principal worked deposits extend from the Highlands of Natal to Middleburg in the Transvaal; from the Zululand coast to Kroonstad, and on in a northerly direction from Zululand, through Swaziland and the eastern section of the Barbeston, Lydenburg and Pietersburg districts of the Transvaal into the Zoutpans Berge district contiguous to Rhodesia. The main deposits lie on either side of the Witwatersrand. The annual production is over 12,000,000 tons, fully 90 per cent. of which is drawn from the Natal and Transvaal collieries. The entire resources of South Africa have been estimated at 250,000,000,000 tons.

Coal is also produced in Nigeria, British Malaya, Brunei, and North Borneo. Very large deposits extend along the western coast of Newfoundland.



**ASBESTOS.** The world's largest asbestos mines are situated in the province of Quebec, Canada. From that source comes 85 per cent. of the world's supply. In 1928 the output of Canadian asbestos was 273,947 tons. The bulk of the exports goes to the United States.

Southern Rhodesia and South Africa are now mining on a large scale, especially the former. Their respective exports in 1928 were 81,246,028 lb., and 24,343,515 lb.

Fairly large deposits are to be found in Cyprus, India, Australia, and New Zealand, all of which are being worked, with the probable exception of New Zealand.

A few of the other minerals and metals of the Empire, to which a mere reference can be made, are—chromium, bauxite, bismuth, molybdenite, osmiridium, wolfram, scheelite, feldspar, fluorspar, magnesite, mica, monazite, plumbago, phosphate, pyrites, saltpetre, soda, quicksilver, and barytes.

## CHAPTER V

### MANUFACTURING IN THE DOMINIONS

IN this industrial age it would be remarkable if any country failed to establish factories on however small a scale, but more remarkable would be the failure of the Dominions and India to develop industries, situated as they are in the midst of immense natural resources, and in possession of domestic markets of no mean size and value. To have remained exporters of raw materials and importers of manufactured goods produced from them would have been alien to the best interests of their respective countries and the Empire to which they belong. In some cases it is more profitable to sell certain raw products and to import commodities produced therefrom, but in instances where manufacturing is more profitable to a country on the whole, we may be sure that, sooner or later, factories will be established.

For more than a century Canada has been engaged in some kind of manufacturing. It is during the last twenty-five years, however, that the astonishing growth of her industries has taken place. Until 1900 the expansion of industrial production was small and slow. The gross value of all products in that year was less than £100,000,000. In 1928, the latest year for which statistics are available at the time of writing, the value had increased to approximately £700,000,000. While the industrial life of Canada would undoubtedly have continued to advance year by year, its phenomenal progress is due in a great measure to the influence of the war. The importation of manufactured goods from the accustomed sources was practically suspended during the war, and the

suspension encouraged the production of many kinds of commodities which had not been manufactured in the country previously. The non-existence of competition was an invaluable asset to the new industries, as the manufacturers set out with practical control of the market. Agriculture was at the zenith of its prosperity, consequently the purchasing power of the people was abnormally high. The result was an extension of factories working at high pressure to meet the stimulated demand at the exceptionally high prices which attended the scarcity of commodities and the competition for them.

At the end of 1927 the capital invested in Canadian manufacturing industries exceeded £870,000,000. The number of persons employed in them was 619,000, their total salaries and wages being approximately £140,000,000 per annum. It is known that the United States has something like £700,000,000 invested in the Dominion, and that a large part of it is in the industries, but the bulk of the industrial capital is held by Canadian investors.

The three most important manufacturing industries are, so far as the value of their products is concerned, pulp and paper, with a production of £44,000,000; flour and grist-mill products, £38,000,000; and slaughtering and meat-packing, £33,500,000. Classified by groups, the industries connected with vegetable products were the largest. The gross value of the output in 1927 was over £142,000,000. This group comprises industries producing flour, bread, biscuits, confectionery, fruit and vegetables, sugar, brewery products, coffee, cocoa, tobacco, cigars, cigarettes, and rubber goods.

The next group in importance is associated with wood and paper, amounting in gross value to £126,000,000. In the group are included industries connected with pulp and paper, sawmills, sash and door factories, wagon factories, furniture, boxes, printing and publishing.

The third group includes industries engaged in the manufacture of motor-cars, railway rolling stock, hardware, machinery, steel, wire, sheet metal, castings, forgings, and agricultural implements. The output of this group was valued at £106,000,000.

The fourth group is connected with animal products. The output was valued at £91,500,000, and the industries include meat-packing, butter and cheese, fish, fur goods, and leather goods, including boots and shoes.

The textile group may be mentioned also, as it has grown very rapidly. In 1927 the output of the industries, which include cottons, woollens, silk hosiery, clothing, dyeing and cordage, amounted in value to £76,500,000.

Even more astounding than the growth of Canadian industries is the expansion of the country's export trade. At the end of 1918 the exports of manufactured goods only were valued at over £100,000,000, or more than the total value of all the goods manufactured in the Dominion as recently as 1900. Of course, just as the war gave an impetus to manufacturing, so it provided an opening for export trade.

Fully 40 per cent. of Canada's export trade is done with countries in the Empire, although, strangely enough, that is 11 per cent. less than was transacted in 1886. The exports to the United Kingdom in 1928 were 33 per cent. of the total, and to the United States 39 per cent., while the imports from the former were 16 per cent., against 65 per cent. from the latter.

Canada's export trade was at its meridian from 1918 to 1920 when prices were everywhere inflated, the demand exceedingly great, and competition not keen, as many European exporting countries had not recovered from the effects of war. Many doubted whether Canadian exporters would hold the markets which they had gained as soon as the older manufacturing countries had rehabilitated their plants. The record exports of 1918 have not since been approached, and the decreases in 1922

and 1923 were very serious. In 1928, the value of exports was £50,000,000 less than in the aforementioned record year, but the decrease was one of values rather than quantities. There is no reason to doubt Canada's ability to hold her present markets, and she seems resolved to extend them by every means at her disposal.

Her imports in 1928 were valued at over £250,000,000.

As the population of Australia is less than half of that of Canada, it is natural that the number of factories in the country should be neither so numerous nor so large as those in the bigger Dominion. The capital invested in them is smaller in consequence. At the same time, the Commonwealth is far from unimportant as a manufacturing unit of the Empire. At the end of the fiscal year 1926-27, the latest year for which statistics are available, there were 21,579 factories in operation, employing 467,247 hands, and paying annual wages amounting to £90,575,166. The total value of the output was £408,692,838.

By far the greater number of factories were engaged in the manufacture of clothing and textile fabrics, the next in order of importance being those connected with food and drink, vehicles and fittings, saddlery and harness, metals, machinery and woodwork. A considerable addition to the factories has taken place during the last six or seven years. No less than 600 new establishments were opened yearly from 1923 to 1927. Of the total number of factories in existence more than two-thirds are located in New South Wales and Victoria, 8,222 being in the former, and 7,690 in the latter.

The export trade of Australia, although not large on the manufactured goods side, amounted to £144,895,183 in the fiscal year 1926-27. This total comprised exports of Australian produce, gold and silver and bronze specie, and also re-exports amounting to £2,989,309. The chief items of export were animal substances, £69,202,396, and vegetable foodstuffs, non-alcoholic beverages, etc., £32,972,690. Merchandise of the value of nearly £20,000,000 was

exported to eastern countries, more than half of it being consigned to Japan.

A detailed analysis of the exports would occupy more space than can be spared. The following table presents an analysis of them classified according to the main industries in which the goods were produced.

Industrial Group	1926-27 £
Agriculture . . . . .	33,155,560
Pastoral . . . . .	75,390,086
Dairy and Farmyard . . . . .	7,118,382
Mines and Quarries . . . . .	20,068,172
Fisheries . . . . .	433,245
Forestry . . . . .	1,713,938
	<hr/>
Total Primary Produce	137,879,383
Manufacturing . . . . .	4,026,491
	<hr/>
Total . . . . .	141,905,874

The total export trade in the above year was 89 per cent. greater than in 1913, which is a most gratifying record. It illustrates the possibilities of further expansion as the population increases and the unexploited resources of the country are developed.

As the population of New Zealand (exclusive of Dependencies) is less than one and a half million, one does not expect to find either a wide or diverse range of industries in the country. There are indications, however, that the principal branches of manufactures are being extended. The establishments recorded in 1926-27, which numbered 5,088, were 285 more than in the preceding year. Motor-engineering accounted for 146 of these new establishments. More than two-thirds of the factories are engaged in the production of commodities for domestic consumption.

The total number of wage-earning employees in the industries was 82,018 in the foregoing year, and the

wages bill was £13,000,000. The value of all products slightly exceeded £83,000,000, whilst the value of land, buildings, plant and machinery was £62,723,125.

By far the greater number of plants were engaged in the production of carriages and vehicles, foods, woodwork, metals, house furnishings, and wearing apparel.

The export trade reached its highest peak, so far as value is concerned, in 1925, when the total exports were valued at £55,262,272. In 1927 the value fell to £48,496,354; but as prices have declined since 1925, it may be that even larger quantities of goods are represented in the 1927 value than in that of 1925. Food, drink, and tobacco contributed to the 1927 exports, £27,921,062; raw materials, and articles mainly unmanufactured, £17,762,194; and articles wholly or mainly manufactured, £1,749,231. The principal items in the foodstuffs were, of course, butter, cheese, and frozen meat. More than half of the exports were sent to the United Kingdom. Australia took commodities valued at £3,665,962; the United States, £2,681,091; Canada, £1,666,598; Germany, £1,139,654; and other countries, £1,969,760.

New Zealand may find it difficult to export many of her products to Europe in competition with countries enjoying geographical advantages, but it is believed that her trade will increase with certain Asiatic countries, with Africa, and many of the Pacific Islands, particularly those that are in comparative proximity to her shores.

If the growth of industrialism in South Africa has been slower than in some of the other countries of the Empire, it has to be borne in mind that its white population is still less than two millions. Moreover, that population is scattered over the whole country, which is enormous in extent, and much of it far from the seaboard. Further, the manufacturers have to contend with the advanced methods of production and their mass character in other countries. Quite substantial progress in manufacturing has been made since the end of the European war, and

doubtless further advances will take place as the years go by. There are almost insuperable difficulties to surmount, however, before manufacturers will be in a position to extend their trade in the domestic market, and even greater obstacles stand in the way of developing an external trade. Transport charges have to be reduced, some sort of assistance will need to be extended to young industries, more white and skilled labour will be indispensable, and production costs must be brought low enough to permit successful competition with imported products.

A Board of Trade and Industries was appointed in 1921 to inquire into and advise the Government on all matters concerning the economic development of the natural resources of the Union and its industries and trade, and more particularly on—(1) the payment of bounties or other forms of State aid for industries; (2) fiscal policy; (3) revision of tariffs; (4) combinations, trusts, monopolies, restraints of trade; (5) dumping; (6) transport and markets; (7) commercial legislation, etc. The duties of the Board are important, and its members are resolved to discharge them in the interests of the productive, domestic, and export branches of the country's economic life.

The gross value of the output of the manufacturing industries in the fiscal year 1926-27 (latest figures available) was £97,878,822. The total number of factories was 7,172, employing 202,608 hands, to whom £24,183,708 were paid in salaries and wages. The value of the land and buildings was £22,561,314, and of machinery, plant and tools, £36,573,158.

The greater number of the factories are engaged in the production of foodstuffs, clothing and textiles, and in metal work, engineering, building and contracting, lighting and heating, printing, chemicals, stone and clay products.

At the time of writing there are no statistics available covering the complete year 1928, but up to September



30th of that year the total exports were valued at £49,406,220. Metals and minerals form the chief group, so far as value is concerned, agricultural and pastoral products being second in importance. The United Kingdom takes over 50 per cent. of the Union's exports.

## CHAPTER VI

### THE TREND OF INTER-EMPIRE TRADE

IN the presence of the two great forces which appear to be mobilizing—one on the Continent, and the other in the United States—there is only one direction of certain promise in which Great Britain can hope to strengthen her economic position and counteract her past and prospective losses in foreign markets. The development of trade with the Dominions and Colonies is the direction indicated. While there are obstacles which prevent the enhancement of our trade with foreign countries—obstacles over which we have no control—there are no impediments to an extension of trade with our kinsmen overseas except our reluctance to adopt measures with that object in view. Protracted delay is dangerous, inasmuch as the Dominions are quite free to conclude with foreign countries any trade agreements calculated to increase their exports thereto. Sentiment, as every business man knows, has its limitations, and such limitations are inclined to take their circumference from the centre of self-interest. The Dominions cannot be blamed if they seek elsewhere facilities for reciprocal trading if such are economically more profitable than those which the Mother Country is prepared to concede.

To maintain that the Dominions already have a market in the United Kingdom as free to them as to foreign countries is to admit the existence of a handicap rather than an advantage. British exporters are fully aware that the preferential tariffs of the Dominions are an infinitely greater asset to them than would be free entry extended to all countries. The application of this

illustration to the exporters of the Dominions is so obvious that it need not be pressed further.

If we analyse Great Britain's trade with foreign countries and countries within the Empire we shall observe serious retrogression in the former, and marked progress in the latter. The analysis also serves to illustrate our prospects in the Dominions and Colonies in comparison with those in foreign countries so far as we are able to compare the present with the future.

Complete statistics of world trade later than 1926 are not available at the time of writing; consequently it will be necessary to confine our analysis to the figures issued by the Economic Section of the League of Nations covering 1925 and 1926. Figures covering a later year might indicate slight changes, but it is highly improbable that, so far as British exports are concerned, our present position is any more favourable to us statistically than it was in 1925.

Our exports to European countries have remained almost stationary at a little over 8 per cent. from 1913 to 1925. In the year of the coal strike they declined to 7·4 per cent., and it is doubtful whether they have yet returned to the percentage of 1925. On the other hand, exports from the United States advanced from 13·5 per cent. in 1913 to 16·4 per cent. in 1925, and 15 per cent. in 1926. It will thus be seen that European imports from the United States advanced by 3 per cent. in twelve years, whilst those from the United Kingdom remained practically unchanged. The total exports of the former country, it should be noted, are also twice as large as those of the latter.

Students of trade statistics published in Washington are familiar with the progress made in Latin America by the exporters of the United States during the past fifteen years. That progress has been made mainly at the expense of Great Britain. Our exports to South America in 1913 were under 28 per cent. of that country's total imports; by 1925 they had declined to 21 per cent., and to 20 per cent. in the following year. On the other

hand, the share of the United States during the same period advanced from 16·2 per cent. to 29 per cent. Every effort is being made to extend this trade of the United States still further, and their success or failure will depend largely upon Great Britain's ability to meet the competition set up. American investments in the South American republics are reported to exceed \$4,000,000,000. (Incidentally, United States' investments in American-owned European and Asiatic factories exceed \$15,000,000,000.) In all the Latin-American countries there are numerous United States consuls continually studying the markets and conveying to the business men at home the latest information in regard to possible extensions of their export trade. The value to the business men of the United States of the work of the Pan-American Union is so well known that it need not be dealt with here.

In the Far East Great Britain has formidable competitors in the United States and Japan. Geographical position and progress in the arts of manufacturing have given to Japan a significant advantage over Great Britain in the Chinese market. For example, the British share of China's imports in 1913 was 16·5 per cent., whereas it was only 9·7 per cent. in 1925, and 10 per cent. in 1926. The Japanese share during the same period rose from 20 per cent. to 29·4 per cent. Perhaps more astonishing is the progress of the United States in the Far Eastern markets of China and Japan. Of the total imports of those two countries the share of the United States was 11 per cent. in 1913, but by 1926 it had increased to 23·2 per cent. Great Britain's share, which was 16·7 in 1913, had declined to 8·4 per cent. in 1926, or a little more than a third of the trade transacted by the United States.

There is no need to extend statistical illustrations of the gains and losses in foreign markets recorded respectively by Great Britain, the United States and Japan. The foregoing are sufficient in themselves to urge upon

British exporters (if foreign trade is destined still to elude them) the necessity of adopting every conceivable measure that carries with it the possibility of developing trade within the Empire.

At the moment Great Britain furnishes about 40 per cent. of the imports of her Empire overseas, while it is questionable if she contributes 12 per cent. to those of foreign countries. If there were indications that British manufacturers would shortly be better equipped to challenge their competitors in foreign markets, we should not be without hope; but the indications point in the opposite direction.

The three southern Dominions, Australia, New Zealand, and South Africa, with a total population under 15,000,000, purchased more British goods in 1927 than did the whole of America, with a population of 207,000,000. In an average year nearly £600,000,000 worth of manufactured goods are purchased by the Dominions and Colonies, of which Great Britain furnishes barely one half. As Great Britain's total exports of manufactured goods to all parts of the world were valued at less than £600,000,000 in 1927, it is apparent that the Empire's total purchasing power in that category is large enough to absorb the bulk of Great Britain's manufactures, assuming that commodities were manufactured to suit the requirements of the Dominions, Colonies, and Dependencies.

Many foreign countries have resolved to expand their industrial production, so that impediments to an entrance into their markets are likely to become more numerous. It must be admitted that Great Britain's chief rivals will be confronted with the same impediments in these younger industrial countries, but the admission does not assist our manufacturers in any way. On the contrary, we may witness stronger efforts on the part of the older manufacturing countries to enter markets under the British flag, or to increase their sales in those already entered. If producers in foreign countries continue to

augment their production it will mean not only a diminishing reliance upon commodities from external sources, but an increasing tendency to develop export trade, thus creating for Great Britain keener competition in certain foreign markets adjacent to the new competitors. It is common knowledge that Italy, for example, is determined to enlarge her industrial plants, and to expand her foreign trade.

A cumbersome word "rationalization" has been chosen to designate the latest suggestions for dealing with production and marketing problems on the Continent, in the United States, and elsewhere. At this early stage it is impossible to say whether world-wide rationalization is practicable or not, but it is certainly full of suggestiveness for Great Britain and the rest of the Empire, even if it can be adopted only to a limited extent. Although circumscribed in scope, some form of it might be easily and profitably agreed upon between manufacturers at home and those in such of the Dominions as have established and are developing industries.

For many years past a modified form of rationalization has been in operation between the manufacturers of the United States and Canada on Canadian territory to the advantage of both countries. Whilst nothing can prevent Canada developing her industries (prevention is neither necessary nor desirable) along her own lines, it should surely be possible for the manufacturers of Great Britain, particularly those who are far more advanced in skill and productiveness, to come to an agreement with Canadian manufacturers whereby each group would concentrate upon the class of manufactures which it is best equipped to produce, so that one should be complementary to the other. An example of this aspect of rationalization is provided by the British motor-car industry and an allied industry in Australia. In the production of chassis suitable for the Australian market, British manufacturers have found it exceedingly advantageous to co-operate, almost to the point of partnership,

with the motor body manufacturers in Australia, who have during the past ten years specialized in that class of work. What has been accomplished by one British industry might surely be accomplished by other industries working in co-operation with similar or allied industries in other Dominions.

Whatever scheme or schemes of rationalization are to be adopted in Great Britain and the Dominions, while it may be necessary for each component part of the Empire to protect its own interests primarily, the ultimate good of the whole British Commonwealth should be the goal kept in view. In some of the Dominions rationalization is much further advanced than it is in Great Britain, especially in regard to orderly marketing. So that any advances made by industrial organisations in the Mother Country will find the business men of the Dominions fully equipped to consider them.

It is anticipated that the practical investigations of the Empire Marketing Board will in due course provide a substantial foundation for a scheme of rationalization as regards the marketing of overseas Empire produce in Great Britain. Exhaustive investigations and Empire-wide discussions are necessary preliminaries to any schemes for the development of inter-Empire trade. If these be carried out they will inevitably lead to the results for which we all long who have the well-being of the Empire at heart. Undoubtedly there exists a fuller Empire consciousness in Great Britain to-day than has been in evidence for generations past, and if all available means are requisitioned for the development of the Empire's resources and the extension of inter-Empire trading, Great Britain need entertain little fear regarding her own economic future and also that of the vast Empire of which she should rightfully constitute the pivot.

To analyse the trade of all countries of the Empire with one another would demand far more space than can be given to it; consequently the following brief

analyses are confined to the larger and more important items of the inter-trading of the United Kingdom, Canada, Australia, New Zealand, and South Africa.

The exports of the United Kingdom to the Dominions, India, and certain Colonies are well worth comparing with exports to some of the larger foreign markets in various parts of the world. Remarkable progress was recorded in our trade with the former, whilst little or no progress was made with the latter from 1913 to 1927. The following statistics illustrate the value of all exports in the said years.

Exports to Dominions, India and Colonies..	1913 £	1927 £
India . . . . .	70,273,145	85,044,842
Australia . . . . .	34,470,452	61,179,266
Canada . . . . .	23,794,926	29,350,282
New Zealand . . . . .	10,837,647	19,608,464
South Africa . . . . .	22,184,729	30,312,361
Straits Settlements and Dependencies . . . . .	5,836,346	11,404,760
West Indies . . . . .	2,339,049	4,527,982
Rhodesia . . . . .	838,873	1,857,462
Newfoundland . . . . .	880,567	790,357
Federated Malay States . . . . .	1,338,529	3,274,143
Uganda . . . . .	54,181	4250,153
Nigeria . . . . .	3,733,877	8,380,761
Channel Islands . . . . .	1,351,456	3,423,718
Sierra Leone . . . . .	755,306	855,529
Gold Coast . . . . .	1,876,940	5,136,705
Mauritius and Dependencies . . . . .	535,873	832,420
Ceylon and Dependencies . . . . .	4,185,172	5,875,360
British Guiana . . . . .	730,464	1,110,014
Falkland Islands . . . . .	95,383	331,049

By far the larger proportion of the foregoing exports consisted of goods wholly or mainly manufactured. As the United Kingdom is much more interested in exporting manufactured articles, the following tables illustrate



the exports of wholly or mainly manufactured goods to certain parts of the Empire, and to certain foreign countries.

Foreign Countries.	1913 £	1927 £
Belgium . . . . .	8,451,425	8,574,482
Russia . . . . .	10,166,293	3,609,474
Germany . . . . .	27,007,148	28,864,678
Norway . . . . .	3,740,354	4,870,142
Sweden . . . . .	4,015,693	6,781,699
Denmark . . . . .	2,977,776	6,962,344
France . . . . .	17,425,643	12,027,377
Spain . . . . .	5,104,138	6,690,078
Italy . . . . .	6,167,172	5,648,890
Netherlands . . . . .	11,748,561	15,960,542
China . . . . .	17,020,072	13,108,557
Japan . . . . .	14,164,623	14,679,858
U.S.A. . . . .	23,048,756	35,803,431
Argentine . . . . .	18,589,272	23,246,476
Brazil . . . . .	10,008,234	12,153,526
Mexico . . . . .	2,079,090	2,072,414
Chili . . . . .	5,070,642	4,863,203
Peru . . . . .	1,343,237	1,948,371
Uruguay . . . . .	2,128,740	2,296,890
Greece . . . . .	1,822,069	3,739,901
Egypt* . . . . .	6,528,177	9,552,044
Dominions, India and Colonies.	1913 £	1927 £
British India . . . . .	66,982,443	79,515,452
Australia . . . . .	31,256,720	57,376,199
Canada . . . . .	20,042,966	23,624,880
New Zealand . . . . .	9,599,552	16,784,733
South Africa . . . . .	4,457,268	13,013,893
Straits Settlements and Dependencies . . . . .	5,100,495	8,653,908
West Indies . . . . .	1,816,448	3,530,662
Rhodesia . . . . .	700,332	1,606,730

\* Includes Egyptian Sudan, 1913.

These statistics need not be reduced to percentage gains and losses, as they demonstrate at a glance not only the greater increases of our trade with parts of the Empire in comparison with foreign countries; they also show clearly that the purchases of a country like Australia, for example, with a population of less than five millions approach in value to Great Britain those of the United States, China and Japan combined, with their teeming millions of people; or of Germany, France, the Netherlands and Russia combined. Confronted with these statistics, there is no other conclusion than that it is along Empire lines that British export trade can most profitably move in the future.

If our exports to the Dominions, India, and the Colonies have advanced enormously since 1913, so have our imports therefrom, as the following table illustrates.

Dominions, India and Colonies.	1913 £	1927 £
Canada . . . . .	30,488,374	55,151,649
Australia . . . . .	38,065,250	52,739,869
New Zealand . . . . .	20,338,057	46,549,306
South Africa . . . . .	12,301,429	21,323,991
British India . . . . .	48,420,490	65,840,065
Newfoundland . . . . .	974,266	2,242,714
West Indies . . . . .	2,115,929	4,487,835
Channel Islands . . . . .	1,983,671	3,426,532
Sierra Leone . . . . .	243,156	660,179
Gold Coast . . . . .	985,689	3,227,069
Nigeria . . . . .	3,890,438	7,522,927
Rhodesia . . . . .	193,842	2,044,067
Uganda . . . . .	298,113	402,939
Mauritius and Dependencies	293,209	3,741,941
Straits Settlements and Dependencies . . . . .	15,799,502	16,576,903
Federated Malay States . . . . .	3,573,644	5,028,994
Ceylon and Dependencies . . . . .	4,465,806	16,642,857
British Guiana . . . . .	648,323	825,414
Falkland Islands . . . . .	427,619	718,160

How far these increased purchases from the foregoing parts of the Empire have assisted our exports thereto it is impossible to state, but there can be no doubt that they have been mutually beneficial, and have enabled the sellers to transact business with the buyer—Great Britain—which, in the absence of that buying, might have been diverted to other channels.

Canada is the second most important manufacturing country of the Empire, and although her exports to the United Kingdom consist mainly of raw materials and semi-manufactured products, her exports to other parts of the Empire consist chiefly of manufactured goods. In regard to her imports, conditions are reversed, her purchases from the United Kingdom being principally manufactured goods, whilst those from other portions of the Empire are largely raw materials and products in a partly manufactured state.

The latest statistics procurable relate to the fiscal year ended March 31st, 1928. In quoting values, Canadian currency is adhered to in the following paragraphs.

Canada's total trade with the United Kingdom was valued at \$598,659,000, divided, as to exports and imports, into \$412,763,000 and \$185,896,000 respectively. The former showed a decrease of 7·9 per cent., and the latter a decrease of 2·2 per cent. compared with the preceding year. As the United Kingdom is pre-eminently a manufacturing country, Canada naturally finds it difficult to compete with the products of our factories in the home market. At the same time, there are certain articles which can be profitably exported, and which will doubtless increase in volume. For example, in 1928, an increase was recorded in the sales of commodities under five main groups—fibres and textiles, wood and paper products, iron and its products, non-ferrous metals, and chemical products, the value of the combined sales being nearly \$5,000,000.

Canadian exports to other parts of the Empire were valued at \$86,514,376. The markets in order of im-

portance were Australia, Newfoundland, New Zealand and British India. Of the entire export trade, the larger volume was transacted with foreign countries, its value being \$728,930,230, against \$499,277,376 with Empire countries.

The import trade with Empire countries, though smaller in volume than the export trade, has increased to a greater extent during the past five years. As in the case of exports, the imports from foreign countries are much larger than those from Empire sources. The total imports in the year under review were valued at \$1,108,956,466, the merchandise of foreign origin being of the value of \$859,869,138, and that of Empire origin \$249,087,328. Next to the United Kingdom, the principal Empire sources from which the imported merchandise was drawn were British West Indies, British India, New Zealand, British Guiana, and Australia.

Canada is making a determined effort to increase its export trade, not only with foreign countries, but with every part of the British Empire. Its Commercial Intelligence Service is acknowledged to be a model for other countries. Trade Commissioners are stationed in all important foreign lands. In Great Britain there are four, and one or more in Australia, New Zealand, South Africa, India, the West Indies, Ceylon, and the Irish Free State. Very large sums of money are spent annually on publicity campaigns, including exhibitions, advertising, and "shopping-weeks."

The principal exports of Australia are raw and semi-manufactured products. Statistics later than the fiscal year 1926-27 are not yet available; therefore the following illustrations of the export and import trade relate to that year.

The total value of the exports was £144,895,183, the trade with foreign countries amounting to £80,863,423, and with Empire countries £64,031,760. The principal market was the United Kingdom, £48,351,780, the next

in importance being New Zealand, India, South Africa, and British Malaya. The leading foreign markets were the United States, France and Japan. On the score of Empire trade, Australia's record stands next to New Zealand and South Africa, being 44·19 per cent. of the total exports.

The import trade in the aforementioned year was the largest on record, the total value amounting to £164,716,594. Purchases from Empire countries were valued at £89,955,854, and from foreign countries £74,760,740, or 54·61 per cent. and 45·39 per cent. respectively. It will thus be seen that the percentage of Australia's import trade with Empire countries, like that of her export trade, stands third to that of New Zealand and South Africa. Over 41 per cent. of the imported merchandise came from the United Kingdom, the countries next in importance being India, Canada, New Zealand and Ceylon. The largest foreign source was the United States, from which merchandise valued at £41,394,277 was drawn, or over 55 per cent. of the total foreign imports. In this latter item, motor chassis, bodies, etc., represented £9,159,286; petroleum and shale spirit, £3,599,356; undressed timber, £2,452,640; unmanufactured tobacco, and rubber manufactures, £3,099,511.

Australia is also pursuing an aggressive policy, in the United Kingdom particularly, in order to increase her exports of foodstuffs and certain raw materials. That she is meeting with success is evident from the fact that her exports were over £27,000,000 greater in 1927 than in 1923. At present Trade Commissioners are not numerous, there being only one in the United Kingdom, one in France, one in the United States, and one in Canada. Three years ago there were representatives in Shanghai and Singapore, but the offices are now closed.

New Zealand, although not exporting on so large a scale as Australia, holds the premier position in the

percentage of trade transacted with Empire countries. Of the total exports in 1927, valued at £48,496,354, a little over 88 per cent. was with British countries, 76 per cent. being with the United Kingdom, 7 per cent. with Australia, 3 per cent. with Canada, and the remainder with India, Ceylon, South Africa and Fiji. The main three foreign customers were the United States, Germany and France.

The most important class of exports was food, drink and tobacco, £27,921,062, the next in importance being raw materials and articles mainly unmanufactured, £17,762,194. The export trade of this Dominion has made very commendable progress. In 1927 it was nearly £20,000,000 in excess of that of the year 1918.

The growth of the import trade has been just as satisfactory as that of the export trade, the increase in 1927, in comparison with 1918, being £20,500,000. The proportion of imports from British countries was 68 per cent., the United Kingdom accounting for 48 per cent., Australia for 8 per cent., and Canada 6 per cent. Of the 31·41 per cent. drawn from foreign countries, the United States accounted for 18 per cent., and Germany, France and Japan for less than 2 per cent. each.

New Zealand is essentially a producer of primary products which she exports in exchange for manufactured goods. The character of her exports may change in time, but it would appear that the change will not be marked to any great extent.

The export trade of South Africa in 1927 was only £3,000,000 less than that of New Zealand. Exclusive of gold, its value was £45,719,873. Of this total, 61 per cent. was with Empire countries, the United Kingdom being represented by 52 per cent., and other British Possessions 9 per cent. France, Germany, Belgium, Holland and the United States were the principal foreign markets in the order stated. The largest single item in the above exports was wool, representing £16,365,950, the other items of importance being sheep skins,

£1,801,135; hides, £1,558,688; maize, £1,266,111; and coal, £1,063,200. The total value of all agricultural produce exported was £27,769,379.

In addition to the above exports, there were shipments of gold valued at £28,556,998, and diamonds valued at £12,285,095.

South Africa's imports in the same year were valued at £74,093,836, or £20,000,000 less than the total exports. Purchases from Empire countries were 60 per cent., against 40 per cent. from foreign sources. Nearly 45 per cent. went from the United Kingdom, 3 per cent. from India, 3 per cent. from Canada, 2 per cent. from Australia, and 6 per cent. from various other British countries. From the United States were drawn 16 per cent., and from Germany 6 per cent.

Foodstuffs, metals, metal manufactures, machinery, motor-cars, leather, paper and textiles were the chief items in the imports. Motor-cars were purchased from the United States of the total value of £2,435,724, those from the United Kingdom being valued at only £315,997. There is certainly scope for the improvement of trade with Great Britain in these vehicles. The respective numbers of cars imported were 13,379 and 1,543. The number imported from Canada was 1,065. Chassis and parts imported from the United States were valued at £669,174, against Great Britain's contribution of the value of £96,123, and Canada's £43,592. Some of the commodities in which the United Kingdom had priority were hats and caps, textiles, apparel, galvanized sheets, wire rope, manufactures of tin, wire, machinery, boilers, earthenware, chemicals, footwear, fancy goods and jewellery.

It is too early to estimate the real value of the Irish Free State as an economic unit of the Empire, although it is at present by no means small, as a study of its trade with Great Britain reveals. If the Irish people resolve to work out their destiny under the British flag, there can be no doubt that such a resolution will make their

country a very important Imperial asset. Certainly it would be in the best interests of themselves no less than of the British Commonwealth. Great Britain, by the density of her population, by her proximity to Ireland, and by her need of huge imports of agricultural produce, will always furnish the farmers of the Irish Free State with the best external market that they are likely to procure. While she remains part of the Commonwealth it will be much easier for her to raise capital for agricultural and industrial development than if she pursued an independent course.

It requires very little prevision to forecast the splendid future of the Irish if the goodwill and financial support of Great Britain are retained, and if the agriculturists, in particular, are aided by the State to pursue an aggressive policy of production and distributive organization. It should not be impossible for agriculture to become as great and as important an industry as it is in Denmark. The English would be the first to appreciate Irish progress, to purchase their products and, provided that investments carried with them a reasonable guarantee of security, to assist financially in the forward movement.

In closing this chapter on the trend of inter-Empire trade, there is one undeveloped feature which must be mentioned on account of the prospects it holds for the well-being of Great Britain and for certain individual units of the Empire, namely, the establishment of branch factories in the Dominions. In pre-war days the argument for such enterprises was not so strong as it is to-day, because, in the majority of cases, it was cheaper to produce goods in Great Britain and export them to the Dominions. But the enhanced costs of production and the heavy taxation now borne by British manufacturers have placed the question in a new and more favourable light. Under the changed conditions, however, it is not easy to reach a decision. Whatever political asset the policy may hold, it will not avail unless the said policy be in harmony with economic laws. Nevertheless, the



establishment of branch factories, or the erection of independent ones, if it suggests great difficulties, also contains compensating advantages.

Of course, one might write very glibly on the subject, which would do more harm than good. The British manufacturer has to be convinced that it would be more advantageous for him to produce in a particular Dominion than at his home factory, and, what is more important, that the Dominion market would be large enough to compensate him for the financial outlay, anxiety, and labour entailed. At present he appears to be able to compete in Australia, New Zealand, South Africa and India, countries wherein the local industries are neither sufficiently numerous nor powerful enough to constitute formidable competition. In Canada, however, he finds the competition of the home manufacturer and that of the nearby American (not to mention the barrier of tariffs) powerful enough to influence seriously his exports to the Canadian market. It would seem, therefore, that Canada presents the best opportunities. Many British manufacturers have already established branches there, but the number is small in comparison with the 700 branches of the United States firms.

Another aspect of the subject is worthy of consideration. Would it be more economical from Australia, New Zealand, South Africa and Canada, to reach foreign markets in proximity to their shores than it is at present from Great Britain? Changes are taking place in production and distribution, and they will doubtless thus continue, so that no avenue should be left unexplored if it contain a promise of better results for Great Britain than are obtainable under existing methods of manufacturing and world-trading.

## CHAPTER VII

### EMPIRE PREFERENTIAL TARIFFS

IN earlier chapters brief references have been made to preferential tariffs already in operation between various Dominions, and between the Dominions and certain foreign countries which extend to them reciprocal tariff concessions. We may now briefly consider the advantages likely to be derived from an expansion of the system throughout the Empire, particularly by Great Britain, which has been so reluctant to adopt it even in its present limited form.

Perhaps no economic factor has been so little understood in the United Kingdom, or so much misunderstood by the majority of our people as the structure, the purpose and the power of tariffs. It is incontrovertible that when Empire preferential tariffs were widely discussed in 1903, the year in which Chamberlain introduced his proposals, the rank and file of Englishmen had not the least conception of their functions, the principles upon which they are constructed, and their effect upon the economic life of countries imposing them, and upon the countries against which they operate for ill or function for their good.

It has always been difficult to interest the mass of English people in economics, and it has been still more difficult to interest them in tariffs, a very important part of the subject, and one that cannot be ignored if we wish to understand the economic policies of foreign countries and the Dominions. The Tariff Commission did excellent educational work during the years of its existence, but little is being done at the moment to

enlighten the working classes in regard to tariffs and tariff policy in general. Yet there are few more, if any, branches of economics that exercise so marked an influence upon the continuity of employment and the maintenance of a high standard of wages. Undoubtedly Great Britain will be compelled, during the next ten years, to adopt some kind of fiscal arrangement with parts of the Empire in order to replace lost trade with foreign countries and to retain what she now has with the Dominions, or she will be forced to take a lower position in the catalogue of exporting nations. Therefore every possible means should be utilized to educate the working classes along lines which will enable them to understand the effect of the existence or non-existence of tariffs in Great Britain, not only upon our domestic trade, but also upon our trade with the rest of the Empire, and their trade with us.

It is a great pity that the question of inter-Empire preferential tariffs cannot be divorced, in Great Britain particularly, from party politics. Chamberlain certainly introduced it as an economic question primarily, whether in the interests of his own country, or in the interests of the entire Empire. For some inexplicable reason the last few generations of Englishmen have departed from the traditional policy of their race, namely, the maintenance of an equilibrium of interests in the country's varying economic activities which was considered to be productive of the greatest national good. Free-trade and Protection, as such, were unknown to the Englishmen of pre-Cobden days. They were masters of their principles, not servants of them. They were not dominated by theorists; they were practical men, and their actions were dictated and controlled by the paramount idea of the nation's well-being. It is common knowledge that this freedom to adopt practical trading methods suggested by prevailing conditions enabled England to gain a monopoly of the world's markets, and to make her traders the envy of all foreign nations.

It is regrettable, as Prof. Hewins observes in his *Empire Restored*, that preference and other branches of economic policy should be interpreted "as the means of securing the unity of the Empire instead of as an expression of that unity." In the minds of the British people the idea of customs tariffs is associated with international bargaining and the protection of domestic markets. Valuable as Protection might be to Great Britain, that is neither the subject of this chapter nor the principle propounded by the advocates of inter-Empire preferential tariffs. It is not a question of bargaining between the Mother Country and the Dominions, but the adoption of means whereby each component part of the Empire can be developed in the best interests of the whole. Much confusion has existed, and continues to exist, in the minds of Englishmen regarding the difference between Empire preference and national protection by means of customs tariffs. Politicians have taken little trouble to explain this difference to the electorate. The "free-trade" parties have given the term a local interpretation and application, whereas it should apply to the whole British Commonwealth, and be interpreted as a desire of the British peoples, wherever they may be settled, to prefer to trade with one another on better terms than they are disposed to trade with foreign countries.

The longer the subject remains entangled in party-political controversies the more prolonged and difficult will a settlement of it become. Without further delay it should be transferred from the political platform, as such, to the committee room of business men. Cabinets are seldom, if ever, composed wholly of men who have demonstrated their qualifications for conducting large and important businesses. After all, there is no bigger business problem challenging the British people than the organization and conduct of inter-Empire trade on a sound and sane basis. It is an astonishing inconsistency of the Labour Party that it should insist upon protection

of the workers by means of trade unions, encourage the latter to extend practical sympathy to one another in the form of financial assistance, and yet reject a proposal the ultimate effect of which will be the formation of the working classes in all parts of the Empire into one union. The working classes of Great Britain stand to gain most by a system of preferential tariffs, for our Dominions will increasingly provide our best markets for manufactured goods in the future. Any scheme calculated to enhance the demand for British commodities must, of necessity, be advantageous to those engaged in their production.

To students of the trade of the United Kingdom during the past thirty years, the effect of the tariffs of the various Dominions upon British exports to their markets is plainly visible, so that it need not be dealt with here.

In the following paragraphs, though briefly, attention must be drawn to the encouraging growth of British imports from countries within the Empire due to the application of a British preferential tariff.

An outstanding illustration is sugar. Any unbiased opinion must concede that the preference has saved the Empire sugar industry from disaster. From 1920 to 1927 our purchases from Empire producers advanced from 297,423 tons to approximately 600,000 tons. It is true that this amount constitutes only two-fifths of our total imports; nevertheless, it illustrates the possibilities of sugar development within the Empire. Indeed, were Empire-grown raw sugar permitted free entry into Great Britain (which would be a form of preference) experts are convinced that within ten or twelve years we should be entirely independent of supplies from alien sources. Extensive development of cane-growing would speedily take place in countries such as British Guiana, Kenya, Uganda, Natal and Australia; the beet-growing industries of England, Canada, South Africa and Australia would expand, and in a comparatively short period the Empire

would become, as it was originally, the leading supplier of sugar in the world.

A second illustration of the benefit derived from the British preference is afforded by tobacco. It is not an exaggeration to affirm that without the preference the overseas Empire tobacco industry would have been squeezed out of existence by foreign competition. At any rate it would never have assumed its present magnitude. Our imports from Empire countries in 1920 were only 1,500,000 lb., but in 1927 they were over 20,000,000 lb. You cannot thus increase capital and labour in any part or parts of the Empire without enriching both Great Britain and the producing peoples concerned.

If space permitted, illustrations could be multiplied to include dried fruits, our imports of which, from Australia, have grown to so remarkable an extent under the British preference extended to them; wines, motor-car accessories, component parts of cars, musical instruments, wireless apparatus, chemicals, wrapping papers, hollow-ware, artificial silk manufactures, leather gloves, etc. These illustrations form a sufficiently large group to demonstrate that the principle of preference can be put into operation without damaging British home industries. On the contrary, it has tended to enrich the latter by furnishing the Dominions and Colonies with increased wealth wherewith to purchase our manufactured goods.

In twenty-five years the English people have done a certain amount of thinking on the subject, and many of the best brains of the country have been converted, not only from their former adherence to the anomaly of free-trade as it affects our domestic market, but to the necessity, should British customs tariffs be extended, of differentiating between foreign goods and those produced within the Empire. Business men are now grasping the significance, if not the challenge to Great Britain, of the formation of at least two formidable industrial and commercial groups on the Continent of Europe and in

the United States respectively, to which reference is made in another chapter. The mobilization of the industrial resources of Europe will not fail to threaten our connections in all the markets of the world, and it would be unwise to underestimate its effect. The United States will continue to tighten its grip on the American continent, aided by geographical advantage, mass production, wide-spread distributive organizations, and a highly protected domestic market.

These challenges may confer a blessing upon the Empire, inasmuch as they may compel Great Britain to adopt of necessity what she has failed to adopt by reason—a system of preferential tariffs constructed to defend and to unify the economic interests of herself and her Dominions, Colonies and Dependencies.

On their part the Dominions have left nothing undone. Repeatedly they have placed before the British Government the policy which they consider it advisable to pursue in the interests of Imperial economic unity. Their own tariffs are a testimony to their desire to carry out Imperial co-operation in trade. It therefore remains for the Mother Country to take the next step forward.

On the subject of inter-Empire preferential trading there can be no saner or more eloquent expression than the following, delivered at the Albert Hall, on May 3rd, 1911, by the late Lord Balfour:

“ In this policy of Preference I see not merely a method by which British capital at home, and British labour at home, can be placed in a better position than they now occupy. I see in it something far greater and not less intimately connected with the real material well-being of this country and this Empire. I see sentiments growing up, sentiments of a common interest between us and our Colonies. I see a solution of the problem I put before you at the beginning of my speech, that new and unique problem which we here and the people of the Dominions are now set by Providence to solve, for I see in it a method, taken in connection with defence, by

which, and by which alone, great communities, independent, self-governing, each with its own separate ideal within the Empire, each carrying out in its own way its individual development and evolution, may yet feel that they are part of one great whole, and that they can present to the world a larger united front which will make it not merely the most peaceful, but the greatest Empire under the sun."

There are arguments against the adoption of inter-Empire tariffs, and no one would wish to dismiss them lightly. One argument is that the erection of tariff barriers might be interpreted as British Imperial aggressiveness, and thus arouse the hostility of foreign nations. The reply to this argument is that no foreign nation could reasonably object to our adoption of a system which it adopted itself so long ago, and continues to maintain as essential to its economic existence. The advocates of Empire preferences have never suggested so suicidal a policy as the inhibition of foreign products, even assuming that it were possible to do so, which it is not. Empire tariffs will fulfil their purpose if they are high enough to protect from unfair external competition the industries that are doing their best to survive in the interests of the country wherein they are located, and at the same time extend some preferential advantage to the other units of the Empire. It would be unwise for Great Britain, as for the Dominions, to erect a tariff barrier too high, as that might so curtail imports as to influence adversely the purchase of goods from us by the foreign countries affected.

Until foreign nations set Great Britain an example by voluntarily reducing their own tariffs, they cannot blame her if she resolves to copy their example, not only for the purpose of strengthening herself and the Empire, but in order that she may possess some effective instrument for bargaining when the said foreign nations realize the rather one-sided character of inter-trading with her. Indeed, it may be that only under a system of inter-



Empire tariffs approximating to those of foreign nations will the Empire be enabled to discuss effectively the question of free-trade between its units, world-wide free-trade, or, failing this, a general reduction of existing tariffs all round.

Under new and increasingly powerful combines of foreign capital, trusts and industrial groups, the Empire will be compelled to protect itself by some means, and a system of preferential tariffs appears to be the only defensive weapon available. Sentiment alone is powerless to withstand the pressure of economic force.

That something should be done quickly to foster inter-Empire trade, everyone is agreed. The disagreement concerns the methods to be adopted. So many interests are dependent upon the continuance of the existing importing and exporting machinery that one can hardly expect those associated with them to favour a change; but if the employment and well-being of the greatest number of our people are at stake, primary consideration should be extended to them. It is to be feared, however, that the whole question, if placed before the people again, would be used as a magnet for attracting votes, with the interests of the country and the Empire occupying a secondary position, as in the past.

In the meantime, therefore, while awaiting the conversion of the electorate, there seems to be nothing else to do but to educate the people and induce them to give overseas Empire products a voluntary preference under existing fiscal conditions, and to persuade the people of the Dominions and Colonies to do likewise with British products.

## CHAPTER VIII

### MIGRATION AND EMPIRE DEVELOPMENT

IN explanation of the diminished desire to migrate to the Dominions and Colonies, it has been stated on platforms, at public functions and in the Press, that the English have lost the spirit of adventure which was a cardinal trait of their ancestors. A few politicians and publicists have attributed the decline of emigration to the influence of the "dole." Whatever the explanation may be, that the spirit of adventure is lost cannot be wholly true of a people who so recently responded to the call of the greatest adventure in the history of their country. The prolonged irresponsiveness must be explained by reference to other causes. In pre-war days it was not the unemployed who emigrated on a large scale. It was the worker who sought larger opportunities in new lands, and wherein higher wages were procurable. The worker in England is much better off now, and on that account is less inclined to break up his home, sever his connection with old friends and old surroundings and start in a new country at wages not immediately larger, comparatively, than those he receives at home. Further, the younger generation have far more leisure and more recreations and pleasures than their fathers had, with the result that they are reluctant to surrender them for a life in lands where they are certainly less prevalent. It must also be borne in mind that there is a scarcity in England and Scotland of the kind of workers principally sought by the Dominions—agricultural labourers—and also an inadequate provision of machinery for the transformation of inexperienced

men into tillers of the soil. This aspect of the subject will be referred to again later.

Quite recently the Industrial Transference Board issued an interesting report on unemployment in Great Britain. Among the remedies suggested for its relief was that of migration to one or other of the Dominions. Suggestions are necessary precursors of action, but if they progress no further than the written page they are valueless. After expressing their regret and astonishment at the disappointingly low rate of the settlement of British people in Canada and Australia, notwithstanding the passing of the Empire Settlement Act, which was for the express purpose of stimulating it, the Board stated: "At successive Imperial Conferences the Dominions and the Mother Country have agreed on the importance of Empire settlement. It remains to put that policy into really effective force. Not only will this bring a direct cumulative gain to the Dominions, it will also go far towards a solution of the special problem confronting us.

"Migration procedure is highly complicated, and formalities are numerous and restrictive. We are satisfied that they constitute a real discouragement to potential settlers. Nothing can be more vital or more urgent than the need for radical simplification of all this.

"Further—to facilitate settlement apart from the Empire Settlement Act—there should be a reduction of the passage rates more nearly to the pre-war level. Something more than this is also needed in the present abnormal conditions here. Even with lower passage rates there are men who would be quite unable to find the money necessary for their ticket, clothes and funds on landing. Such needs ought to be met during the next few years.

"If action on the lines of our report be taken promptly and pressed resolutely, the problem, grave and stubborn though it is, will not be found incapable of solution. But no single line of advance must be ignored. Only by concerted movement, alike within our shores as within the Empire, can the desired objective be attained."

It is obvious that one effective means of diminishing unemployment in Great Britain is provided by migration. Even if a merely self-interested view of the problem be taken, it is sound policy to transfer the workless from areas with a labour surplus to lands wherein work is plentiful, rather than to retain them at home inactive and a burden upon the State. But there is no need to take this self-interested view. The Dominions are calling for settlers, and they are prepared to absorb them in large numbers, realizing that their own populations must be augmented if they are to develop their resources and people their enormous territories with British rather than alien stock.

But while it is true that the Dominions are calling for immigrants, that in their vast territories there are unlimited opportunities and scanty populations, and that it is sane to encourage men to go where those opportunities exist, the emigrant has a right to know where he is going, what he is expected to do, and, what is more important, whether he is able to do the kind of work that will be required of him. You cannot ask a mechanic to migrate unless you can assure him, not only that work awaits him, but that no impediments such as prejudice or trade union regulations will obstruct him when he reaches the factory door. On the other hand, if none but agricultural workers are needed, machinery must be constructed and set in motion for converting the non-agriculturist (assuming that he is willing to take up work on the land) into an agriculturist, which is a conversion far more difficult of accomplishment than it seems.

The distribution of labour throughout the Empire, so that a surfeit in one area or in one country may be transferred to areas or countries wherein labour is scarce, is one of the most pressing problems confronting the Governments and peoples concerned. Its solution calls for the highest order of statesmanship. No Empire Settlement scheme can be successful unless it is carried out on a large and comprehensive scale, and is undertaken by the

concerted action of Great Britain and her Dominions. To continue to spend £100,000,000 a year in connection with unemployment and Poor Law Relief and yet provide only £3,000,000 a year to assist emigration is hardly indicative of high statesmanship. Had the latter amount all been expended on migration schemes, more would have been accomplished; but since the passing of the Empire Settlement Act in 1922, of the authorised expenditure of £21,000,000 less than one-third has been utilized. The unexpended portion of the annual grant reverts to the Treasury.

While it is true that many organizations in Great Britain are doing useful and commendable work in connection with migration, it is doubtful whether the community as a whole realises the importance and necessity of an ordered distribution of labour throughout the Empire. It is useless to complain of depressed trade and irksome taxation and at the same time ignore at least one fruitful avenue of relief. If those burdens remain upon England's shoulders, the responsibility for carrying them will be entirely the nation's own.

It is the country's inability to absorb its youths in industry that is even more alarming than the unemployment of adults. Approximately 300,000 boys leave school every year, and it is impossible to place more than a small percentage of them in satisfactory positions. Unemployment at so early an age is demoralizing, and their non-absorption in industry at a period in their lives when a trade should be learned is a serious loss to the industrial life of the nation. In the absence of an appreciable revival of trade, a comprehensive scheme of migration appears to afford the only avenue of relief. Praiseworthy attempts have been made by some of the Dominions, in co-operation with the British Government, to place some of the youths in agricultural pursuits. In order that the young emigrant may be equipped with some rudimentary practical knowledge of agriculture before proceeding overseas, several training farms have been

established in England. While such preliminary training is commendable, it would be preferable to assign it to the particular Dominion in which the youths elect to settle, as, naturally, agricultural methods therein are different from the English methods. A short training is now being given by the Ontario Government to an annually fixed number of youthful immigrants before they are placed with farmers in the province, and that Government's example, if extended in Canada and adopted in other Dominions, would undoubtedly benefit the promoters of it, and at the same time contribute to the solution of England's problem regarding the employment of its youth.

It is plain that the whole question of migration can be settled only by the combined action of Great Britain and her Dominions. Concerted action should have as its basis continuity of policy. Changes in immigration policy are far too frequent in some of the Dominions, due to change of Government, or to interested political influence. If a permanent Migration Board, independent of politics, were established in Great Britain to co-operate with organizations similarly constituted in the Dominions, there would be a distinct gain to all the countries concerned. The Board in Great Britain should have among its members at least one representative from each Dominion commissioned by the Board of the respective Dominion to act as its representative and adviser. Up to the present time the Dominions have limited their acceptance of immigrants to agricultural workers and domestic servants. To import other kinds of labour officially would involve them in disputes with trade unions probably, and so create political trouble. In all the Dominions there is an increasing tendency to manufacture at home, which means that skilled and unskilled workers could be absorbed in the new and expanding industries. An independent Board would be apprised of the demand for such workers and would be enabled to place men in positions without incurring risks such as

might confront a political party which undertook the task. This would be far more satisfactory to the Dominions than allowing men to enter the country on the offchance of finding the particular work for which they are equipped.

The more one studies the question of Empire settlement, the more one is convinced that a judicious and comprehensive scheme to deal with it immediately is absolutely essential. It would certainly relieve unemployment in Great Britain, and would at the same time provide the Dominions with British stock for which they all express a preference.

The population of England is said to be 482 to the square mile. In Canada it is 2.5; in Australia, 1.8; in New Zealand, 11.7; and in South Africa, 3.2. It is apparent, therefore, that the people of the Empire are far from being evenly distributed. It would be quite impossible to distribute them evenly, of course, but it should be possible to relieve the more densely populated areas to the advantage both of themselves and the sparsely populated Dominions.

Our Dominions purchase enormous quantities of British goods yearly, and an augmentation of their populations would undoubtedly mean increased purchases from us. Mr. Amery has said: "Australia and New Zealand, with 7,000,000 people between them, bought in 1926 British goods, almost all manufactured, to the extent of approximately £11 10s. per head. In other words they bought from us more than the 700,000,000 people of Asia (India included), twice as much as France, three times as much as Germany, and six times as much as Italy." Surely it is in the interest of Great Britain to spend liberally on the strengthening of the populations of the Dominions in order to increase their purchasing power and to diminish the drainage of her Treasury by unprofitable doles and poor relief at home.

If some immediate attempt is not made to settle skilled as well as unskilled men in the Dominions, we shall doubtless witness a greatly increased migration of English

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mechanics to the United States now that she has consented to admit annually a larger quota of immigrants from Great Britain than the heretofore limit of 34,000. Such valuable industrial material should not be lost to the Empire for the want of foresight and practical encouragement.

Englishmen have not lost their grit. They are merely awaiting a definite and reliable demand for the kind of work that they are fitted to do, and the necessary financial assistance to enable them to take up that work by which ever Dominion it may be offered.



## CHAPTER IX

### THE NEED FOR EDUCATION

CRITICS of our educational system are numerous enough; no less numerous are the detractors of our business methods. It is always a thankless task to indicate defects, and it is never an easy matter to suggest improvements. Not in a spirit of criticism is the suggestion advanced that a fuller knowledge of the great Empire to which they belong should be imparted to the young people of Great Britain. Demonstrative patriotism is as unnecessary as it is undesirable; nevertheless, boys and girls must be taught loyalty to the Empire, and no effort should be spared to arouse a consciousness of the responsibilities which their heritage imposes upon them. As an abstract idea, that heritage can convey little to their minds; consequently, it must be accompanied by instruction in the evolution of the Empire, its constitution, collectively and individually, its geographical and climatic assets, its magnitude, peoples, products, resources (developed and undeveloped), sea and rail communications, the extent and nature of its industries and trade, and, above all, the advantages to be derived from the consumption of Empire products in preference to those of foreign countries. The immediate effect of such instruction may be negligible, but it could not fail to produce beneficial results when the boys take their places in industry and commerce, and the girls reach the housekeeping age and take charge of the domestic exchequer.

The primary and secondary schools are devoting more attention than formerly to the commercial geography of

the Empire, and it is a pity that all the public schools do not copy their example, especially as the youths trained therein are likely to associate themselves in due course with the management of British industries and commercial houses engaged in export trade, or may seek careers in one of the British Dominions, colonies or possessions.

A practical method of educating our youths along Imperial lines has been adopted to a limited extent in the form of vocational tours of some of the Dominions. That is a highly commendable form of education, and it might be extended either by local educational authorities, the public schools themselves, or with the aid of grants from the British Government and the Government of the Dominion selected for the tour. The School Empire-Tour Committee of the Imperial Institute has set an example of the kind by sending thirty-five public school boys and a staff of three on a tour of New Zealand and round the world. It is understood, of course, that discretion needs to be exercised in the selection of youths for such tours, the choice being dictated by the careers which the candidates may have in view.

The Empire Marketing Board, although heavily burdened at present with a multitude of schemes, might be induced to extend the work of its publicity branch. So far, its propaganda has been more general than specific. Street posters, maps and newspaper advertisements are, by their nature, circumscribed in appeal and in influence. Their purpose is to "boost," not to teach. A number of speakers capable of delivering a course of lectures on the British Empire could do valuable educational work at primary, secondary, and public schools, at young people's clubs, working men's institutes, women's societies, and other organizations similar in character. The Board is already doing something of the kind, but the work is not on a sufficiently large and comprehensive scale.

Such lectures as those suggested would not only spread a fuller knowledge of our Dominions, colonies and

possessions; they would furnish facilities, especially among women, for urging the claims of Empire products in preference to those of foreign origin. If the foodstuffs of the Empire are to be popularised in Great Britain they must be made known to the consumer. It is not in the direct interests of the shopkeeper to press Empire products upon his customers. He is in business to supply the commodities demanded. If he is to stock Empire goods, he can do so profitably only in response to a demand. The education of consumers to differentiate between goods of Empire and foreign origin, and to demand the former, is one of the most urgent needs in the development of Empire trade. It is an arduous task, but if it were undertaken by the Empire Marketing Board, that organization would add to its already invaluable work by further expanding the trade of the Empire in the direction indicated by the Imperial Economic Committee.

Not less important than a fuller knowledge of the Empire by our young people is a closer familiarity with the markets thereof on the part of manufacturers and merchants. Everyone familiar with foreign and colonial markets is cognisant, not only of the intensified competition resulting from the increase of manufacturing plants in almost every country, and the accentuated competition therein, but also the changes in the range and variety of goods in demand. A large number of foreign and colonial buyers have opened offices in Great Britain. That policy has been dictated partly in the interests of economy, but mainly in order that the proprietors may purchase on the spot the particular commodities required in their respective markets. So many British manufacturers have been accustomed to the transacting of their "colonial" trade through merchants, that they never know from personal experience either the changes that are taking place in the nature of the commodities in demand, or the origin, extent, and character of fresh competition. The old-fashioned terms—"Colonial trade," "China trade," etc.—are misleading to-day, inasmuch

as the requirements of most countries have changed too markedly to be embraced by such general terms.

Competition is now so keen that salesmanship is of paramount importance. Towards the end of 1929 the Committee on Education for Salesmanship issued its interim report which, if it contains little information that was not already known to our leading exporters, certainly reveals the need for a wider and fuller education of the young men destined to be our future salesmen.

A good salesman is invaluable, whether he be in the sales room, in the store, or "on the road"; but such an individual should always have his natural ability supplemented and directed by the greater salesman, who is, or ought to be, the person at the head of the export side of any business doing an overseas trade. It is useless to send a representative to any foreign or "colonial" market for the purpose of selling goods, unless he, or the head of the export department, or both, possess a thorough knowledge of that market's requirements and its methods of trading. So frequently, in the past, have travellers been despatched to an overseas market with samples of a firm's manufactures without preliminary investigations having been made, and the firm has experienced sore disappointment when the traveller has returned with few or no orders taken.

The present writer has had over twenty years' intimate connection with Canadian trade and commerce. During that time hundreds of firms were interviewed in Canada and other countries. The outstanding complaints of importers were the unreadiness of British manufacturers to supply the specific commodities required and in the case of such goods as were saleable the absence of stocks upon which the importer could draw quickly instead of being compelled to cable and await the arrival of the goods, a delay which might entail the loss of an order. In the case of articles in demand continuously, American manufacturers carry stocks not only in the main distributive

centres of Canada—Montreal, Toronto, Winnipeg and Vancouver, but in all cities where the volume of trade is large enough to make such a practice remunerative.

A further complaint was the failure of many firms to furnish catalogues and quotations in Canadian currency and weights. The Americans, using the same currency and weights as the Canadians, possess an asset of great value, and until British exporters all round take the trouble to convert their quotations into dollars and cents, the Americans will always have an advantage over them in the Canadian market.

To what extent the foregoing and allied basic trading subjects can be taught young people taking up commercial careers is a question for educational authorities and exporting houses. That there is a limit beyond which the secondary and public schools, and even the universities, cannot pass is admitted, but there cannot be too frequent discussions between business men and educationists in regard to the extent and nature of such knowledge as can be imparted in preparation for the commercial channels through which indispensable practical experience can be gained.

Whatever means are adopted, it is certain that export firms will never hold their own in overseas Empire or foreign countries, still less progress therein, unless they endeavour to know such markets thoroughly by studying their characteristics; by continuously and sympathetically keeping in touch with them, and, by such a policy, demonstrate to their customers that their sole aim is to give satisfaction in every way.

## CHAPTER X

### THE FUTURE AND ITS POSSIBILITIES

AFTER reviewing the resources of the Empire, the trend of inter-trading therein, the tendencies of modern industrial development, and the direction in which the leading manufacturing and trading countries of the world appear to be moving, one naturally wonders what position the British Empire is destined to occupy in the years to come. Will the various units be compelled to work out their own salvation? Nothing would be more fatal to the unity and continuity of the Empire than a conviction in the Dominions that the Mother Country preferred their pursuing such a course. In spite of the indifference of the British people at home in the past, the Dominions are hopeful that mass opinion in Great Britain will yet change, and empower the legislators to take whatever action is necessary to ensure Imperial economic unity no less real and effective than that which exists between the various units of the United States of America.

Obviously a beginning should be made at the centre of the Empire, first in its own interests, and afterwards in the interests of the whole British Commonwealth. The main problems presenting themselves for solution at home are the organization of industry in such a way that our export trade can be restored, and the development of agriculture on a scale large enough to reduce our huge imports of foodstuffs from foreign countries. In addition to the disparity between our exports and imports as a whole, there is the more absurd and alarming disparity between our external purchases of products of the soil and our capacity for production at home.

In regard to the reorganization of industry, Viscount Rothermere has stated: "There is more out-of-date machinery in the North of England than in any other great industrial district in the world." Further, he has affirmed that "our fiscal system, our industrial organization, and our business outlook are all as archaic as our machinery." Whether we agree with him entirely or not, it is certain that the United States and Germany are already larger exporters than ourselves, and that there must be some reason for our relegation to the third position after leading the world industrially for so many decades.

To what extent reorganization can be carried out is not as apparent as is the necessity for it. It has to be borne in mind that reorganization on a scale commensurate with the need entails an enormous capital outlay, and money is far from plentiful either in industrial concerns, or in the pockets of the investors upon whom industrialists invariably rely when reorganizing, reconstructing, or extending their plants. On the contrary, money is exceedingly scarce, and, what is more alarming, the demands of the State and municipalities are increasing, while the resources from which the demands are drawn are assuredly diminishing. The marvel is, by way of example, not that three hundred cotton mills have closed down in Lancashire since 1920, but that the remainder are able to survive the burdens of their overhead expenses and meet foreign competition at home and overseas.

Reorganization, reconstruction—call it what we will—even if it be undertaken, cannot of itself restore the lost fortunes of British industry. It needs to be accompanied by a diminution of public expenditure on social services and luxurious utilities for a decade at any rate; by safeguarding duties in cases where unfair competition makes reconstruction out of the question; and by agreement among employers and employees to extract from industry the largest output possible.

The question of increasing our output is of vital impor-

tance. Solve it satisfactorily, and the country would move towards recovery. Industrial practice is so far ahead of us in that respect in the United States that no one can be surprised at the progress her export trade has made during the past ten years in particular.

A very astute American friend of Great Britain states in his book on *Britain's Economic Plight*, that "Britain's resources (Empire) are tremendous and incalculable; probably far greater than the British people themselves have the slightest idea. It has the transportation, the manufacturing plant, the credit, the raw materials, the reputation, and apparently everything that goes to make a trading and manufacturing nation pre-eminent in its sphere. But as matters stand to-day, it isn't using the kind of economic intelligence necessary to turn these national resources to the best account. It is the human element that is at fault. . . . The only way to make things better is to wipe the slate clean, kick out the Labour leaders who look to Russia instead of to America for their ideas and inspiration, and set about the all-important job of getting down the cost of goods which England must sell abroad if her people are to keep on eating."

American employers and employees have accomplished far more than the British in the matter of increased production. They have made fuller use of mechanical power and labour, and improved their methods of management and administration with excellent results. According to reliable statistics their manufacturing industries required 13 per cent. less mechanical power in 1924 than in 1913, and 25 per cent. fewer wage-earners, 17 per cent. less management personnel per unit of product, besides decreasing the average hours of work per worker per week by 10 per cent. Moreover, the value added by manufacture per wage-earner increased by nearly 100 per cent., while real wages, in relation to purchasing power, advanced by over 25 per cent. In these facts may be discerned the key to the wonderful expansion of



American export trade, and the ability of that country's manufacturers to beat Great Britain in so many markets.

In 1927, Mr. J. Ellis Barker wrote an informative book on the industrial and commercial progress of the United States—*America's Secret—The Causes of her Economic Success*. It is a brilliant analysis of America's trading equipment, and should be studied by every man desirous of ascertaining our industrial weakness in comparison with American strength. Increased production, in the opinion of Mr. Barker, is Great Britain's one avenue of salvation. The situation is summed up in the following words:

“At present England seems to be drifting towards perdition, not because of her War debt, but because of the evil spirit which has destroyed the unseen foundations of race and nation. Will there be a turn of the tide? By trebling output per worker (one American worker produces about as much as four British workers) England's wealth, income, and power would be trebled, and the burden of her War debt and taxation would automatically be reduced to one-third. High production and a return to those qualities and methods which have made England great in the past will save the situation.”

Two or three conflicting forces have been in operation in Great Britain for more than a decade. Whether they are the direct and absolute cause of our inability to compete in foreign markets may be questioned in view of the country's enormously increased financial burdens, but it is beyond refutation that restricted output, curtailed hours of labour, and enhanced wages have synchronized with trade depression, and have undoubtedly contributed to it.

Regarding restriction of output, some manufacturers are as great offenders as their employees. For some time past the manufacturers of cotton goods have been endeavouring to revive their trade by curtailing production, with the inevitable result that the demand has further declined instead of increased. Henry Ford adopts the opposite

policy. He increases his output in order that he may command bigger sales, shorten the working hours of his men, advance their wages, and at the same time augment his own income. It is not over-production at low prices that kills demand, but under-production at high prices. However, that is a phase of the subject not quite within the scope of this book.

Some action must be taken to revive our export trade. If we cannot regain our foreign markets, we can certainly increase our sales to Empire overseas markets by a process of mutual bargaining. The Dominions are prepared to purchase more from us if we are ready to purchase more from them. The same cannot be said of foreign countries. From 1920 to 1922 there was an almost world-wide trade depression, and there were plausible grounds for believing that our industrial distress was but part of the whole. That depression is no longer universal, yet our own persists. By every means at our disposal we have tried to revive our industries, by subsidizing the building trade and coal-mining, by credit facilities, by urging the construction of public utility works, by derating, and by distributing hundreds of millions sterling in unemployment and poor relief. Governments have announced palliative policies, put them into practice, and yet there is no indication that trade will be in any better condition at the end of the present year than it was in 1925. We appear to have reached a state of mentality in which the whole nation is tending to accept the situation as inevitable and permanent.

If there is any practicable alternative to Empire trade development for the restoration of our former commercial supremacy, the authors have not yet announced it. While every other manufacturing country in the world deems it necessary to keep its home market sheltered, Great Britain neither shelters its own, nor the greater market of Empire, which is large enough to absorb more than the whole of our exports of manufactured goods. Further, there is a solidity, continuity, and a

prospective growth of overseas Empire demand contrasting with the uncertainty of our future transactions with foreign countries. The consumption of British goods by the Dominions, *per capita*, is many times greater than that of foreign countries, and as their populations increase, and their resources become more fully utilized, their purchasing power must develop in proportion. While there are always possibilities of wars and civil disturbances in foreign countries, disruptive factors in trade, it is hardly probable that such eventualities will arise in the Dominions. Peace and the development of their economic life are the principles by which the peoples are actuated at present, and are likely to be actuated for many generations to come.

By the adoption of an Empire trade policy based on mutually arranged tariff concessions, we should reduce the number of our unemployed and revitalize our depressed industries. The policy would include the reserving for ourselves of a larger proportion of our home market, and the multiplying of our customers in the overseas parts of the Empire by increasing their purchasing power as the result of our increased purchases from them.

The present situation is favourable to a forward movement towards closer trade relationships. Delay can only intensify any difficulties now preventing freer trade amongst us. The establishment of additional industries in the Dominions is bound to continue unless their peoples, by preferential tariff arrangements, find it more advantageous to import certain commodities from us than to manufacture them. To provide the Dominions with an assured market is the most effective means of inducing them to confer similar favours upon us.

From whatever angle the economic inter-relationships of the Empire are viewed, it has to be admitted that they are defective. There is something which prevents the welding of the component parts into one effective commonwealth for the promotion of the interests of each and the whole. Until the dawn of Empire free trade is visible,

it would appear that mutual tariff preferences constitute the only means of ensuring Empire integration. A common trade policy is the surest foundation for any future policy of united action in world politics. Trade is the life-blood of all sections of the Empire, and the supreme interest of all peoples is to safeguard that which sustains their life. The aspect of unity for defence, however, need not be discussed here. Defence is not always a common interest of Empire, but that trade is, there can be no doubt.

In a preceding chapter we have noted the existence of an Empire trade policy, in embryo, worked out by the Dominions, the growth of which has been retarded by the inactivity of Great Britain. It has grown, and still thrives, but without the effective co-operation of the Mother Country it can never reach the fullness and stature of maturity. In spite of the indifference of Great Britain, the Dominions continue to invite reciprocity by their own example. How much longer those preferences will be extended in the absence of a practical response from us, it is impossible to say, but if delays persist, there is always the possibility of the Dominions concluding trade agreements with foreign countries having something to give in return, thus tending to diminish instead of to increase their purchases from us.

In the initial stages of trade development by inter-Empire preferential tariffs, it might not be possible to select more than a few commodities for reciprocal treatment by Great Britain and Canada; but a beginning of some kind is the important thing. As an illustration of possible benefits to British industries, two items may be cited. Canada imports from the United States annually over 3,000,000 tons of anthracite coal, and only 600,000 tons from Great Britain. A Canadian tariff in our favour would give a tremendous impetus to the Welsh coal trade. That Dominion also imports from across its southern border approximately £70,000,000 worth of iron, steel, and machinery a year, but only £4,000,000 worth from

Great Britain. If the trade in these commodities could be transferred to us, on condition that we made purchases from Canada of corresponding value, our iron, coal, and steel industries would quickly be delivered from their present depressed state.

A mutual exchange of other commodities could also be arranged with Canada as well as with other Dominions. The point is to make a start. This can be done when all the interested parties consent to sit in conference, with a free hand to act.

At the end of 1929 there was issued by a number of leading representatives of British industry a "Manifesto on Imperial Trade Policy." The signatories formed an Empire Economic Union to study the problem and to advocate the policy in Great Britain and throughout the Empire in co-operation with other leaders of industry. The manifesto states: "Having carefully studied the economic and industrial position of world trade, we have come to the conclusion that it is imperative to establish between all parts of the British Empire a policy of closer and more intimate mutual economic co-operation than exists to-day.

"It is not merely that of a total annual import into all Empire countries of £2,200,000,000 only some £900,000,000 comes from the Empire, leaving an enormous margin, most of which could be supplied from Empire sources. It is even more the almost incalculable stimulation to productive power and enterprise in every part of the Empire which would result from a conservation and circulation within the Empire of the creative energy represented by our purchases.

"The need for a prompt and bold decision is being forced upon us. It is not only that our own trade and employment position in Great Britain calls for immediate action. The United States, following a policy of mutual economic co-operation over a vast and rich territory, has built up a position as the dominating power in the economic world.

“In Europe far-seeing men realise that the day of small economic units is passing away, and our former allies and enemies are being rapidly forced to consider some form of closer economic union for a continent. In the coming realignment of world economic forces can the nations of the Empire afford to remain isolated economic units? Will they not be compelled, unless they are to fall behind in the whole progress of world development, either to accept absorption in one of the great neighbouring groups—Great Britain in the European group, the Dominions in the American economic orbit—or else to combine to make the Empire an economic unit?

“We stand unhesitatingly for the Imperial solution. If the ideal of an absolutely free interchange of all Empire products within the Empire is not realisable, at least under the conditions of our day, let us at any rate get as near to it as we can. Let us, by consultation and discussion, by mutual give and take, modify whatever is vexatious and hampering in our various fiscal and trading systems without being essential to our individual economic policies, and ensure that inter-Imperial trade, if not absolutely unchecked, shall at any rate flow as freely and in as full volume as statesmanship and the good-will of our peoples can enable it to flow.”

By the study and advocacy of this great and important question, it is hoped that the peoples of Great Britain and other parts of the Empire will be able to form some common policy of economic unity in the near future.

Until such a policy is put into operation, Great Britain must utilize every means at its disposal for the improvement of trade with the overseas Empire and foreign countries under existing conditions. In one direction the Government could be of greater service to our traders, and if it is dealt with at some length, it is because the importance of the subject demands it.

When it was proposed, in 1929, to close the Department of Overseas Trade, business men who had derived

benefit therefrom made strong representations to the Government regretting the proposal, and pressing for the continuance of the department's activities. The politicians who advocated the abolition of the department could not have been familiar with the work of the United States Bureau of Foreign and Domestic Commerce, nor could they have had at heart the interests of British overseas trade, or they would have suggested an expansion rather than a contraction of our machinery for the promotion of trade abroad.

Under Mr. Hoover, after he was appointed Secretary of Commerce, in 1921, the principal agency for the advancement of foreign trade was reorganized and revitalized, his guiding principles being the extension of the commercial attaché and trade commissioner services, and the establishment of close and continuous contact between the Department of Commerce and the factories and business houses in the United States.

The new system of "grouping" within the Bureau of Foreign and Domestic Commerce, which has been productive of such excellent results, took the place of "regional" divisions. The "regional" system consisted in concentration upon the needs of specific geographical sections of the world; the "grouping" system is based on commodities in preference to areas. The divisions of this system represent the interests of the various industries individually rather than collectively, as was formerly the practice. By working in close co-operation with a definite industry, a division is enabled to give far more satisfactory service, as each group of manufacturers of particular commodities knows that it has a "service unit" at the Bureau to which it can apply for any information concerning foreign markets. There are at least sixteen commodity divisions functioning. In addition, nine "technical divisions" are in operation fully equipped to furnish information and to advise on the commercial laws of foreign nations; transportation and communications; Customs duties and import and

export regulations; questions relating to foreign Government loans, investment operations and exchange matters; and reports, statistics, etc., relating to the import and export trade of the United States and all other countries in the world.

A Division of Regional Information is still retained, its duties being the dissemination of general information on economic conditions in all countries with which trade is possible. The reports of the division are based on information received from the American consuls and representatives of the Bureau, and are distributed to such firms as are known to be interested in them.

In 1921, the foreign offices of the Bureau numbered twenty-two; there are now about sixty in existence. The selection of the commercial attachés and trade commissioners is made with great care. They must be trained business men and economists.

Following the example of Canada, the Bureau has recently appointed permanent trade commissioners to specialize in a particular commodity. Each commissioner is given a special line of trade to investigate in a selected territory, and he is expected to collect all available information thereon, and to prepare a report for transmission to all American firms interested in that particular line and market.

To collect all this information would be of little purpose unless it were directed into the appropriate channels, and were speedily and always at the service of American business interests. Throughout the United States there are under the Bureau of Foreign and Domestic Commerce twenty-nine district offices, and forty-nine co-operative offices, the former being directed and maintained by the Bureau, whilst the latter are attached to local chambers of commerce, or boards of trade, which bodies discharge their own expenses, the Bureau furnishing to them, gratis, the same service as is extended to the district offices. It is thus possible for any business firm to 'phone or call for the latest and fullest information



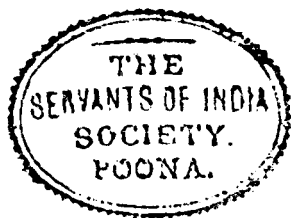
on any branch of foreign trade, or any market, without having to communicate with Washington.

The organization of the United States Bureau of Foreign and Domestic Commerce has been given at some length in order to indicate the efforts put forth by the American Government to assist the country's exporters, and thus extend their foreign trade. That these labours are appreciated and fully utilized is beyond doubt. During 1928, according to the Commercial Intelligence Division, of the 400,000 detailed reports on foreign business houses filed at Washington, 45,600 were furnished, by request, to American exporters. In addition, 13,000 services, consisting of every phase of trading abroad, were performed daily for business men.

Such work on the part of a Government cannot very well be ignored by Great Britain. A live foreign trade service should be of inestimable value to British manufacturers and exporters generally if conducted on a large scale, and kept closely and constantly in touch with them. The British Government should consider the enlargement and not the curtailment of its trade-promotion activities throughout the Empire and in foreign countries.

In conclusion, one can but hope that Great Britain will awake and put on strength. If immediate and full advantage be taken of the natural resources and trading opportunities which the Empire presents, we need not despair. On the contrary, we should witness a resuscitation of industries, and a return to the position we once held as the greatest traders in the world. Instead of the present loose collocation of scattered peoples cemented only by blood and language, the revival would lead us to the realization of an economically and politically united Empire.

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Mr. HAYLOCK ELLIS, in a letter to the author, refers to the book as a "thoughtful and vigorous little work," and finds in it much that is "well and boldly put."

Mr. ROBERT BLATCHFORD, writing in the *Sunday Chronicle* and *Sunday Herald*, refers to the work as "a fascinating book."

# THE SURVIVAL OF THE UNFITTEST

BY

CHARLES WICKSTEED ARMSTRONG



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## FOREWORD TO THE SECOND EDITION

THE supreme test of an hypothesis, in problems of cause and effect, is the subsequent verification of such consequences as may have been predicted. The discovery of the planet Neptune in the year 1846, by means of the telescope, in the very orbit foreseen by Adams in 1845, as a necessary consequence of certain mathematical hypotheses, confirmed those hypotheses. In the same way, the verification of the curvature of light rays by Eddington, after its theoretical discovery by Einstein as a consequence of the theory of Relativity, confirmed Einstein's hypotheses.

In sociological problems, of course, as more varied and uncertain factors have to be taken into consideration—factors whose exact effect is often hard to trace on account of the impossibility of isolating them—predictions can never be as exact and categorical as may be the case in astronomy, physics and mathematics.

Nevertheless, if one predicts, for instance, in 1927, that, as a consequence of an economic and natural law which has served as hypothesis, namely, that *distress tends to press upon relief*, every increase in doles or in the facility with which they can be obtained will, other things equal, be followed by a

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proportional increase in unemployment ; and that the more money we give out in benefits and in drugs under the National Health Insurance scheme, the more we shall have to give out, both these predictions being subsequently and most signally fulfilled, one may legitimately consider the hypothesis confirmed.

In the case of unemployment it will be urged that " other things " have not been equal, for the troubles in India and China, the slump in New York and the Hatry crash may be considered as causes of the new increase.

But troubles in China have been going on for a very long time, while those in India have not come along suddenly, since Japan and other countries have been gradually capturing our markets there for many years. Neither are slumps and crashes new phenomena, though some may be more spectacular than others. *Such influences NOT beginning all at the same moment (July, 1929)† could not cause a sudden enormous rise in unemployment, such as we have witnessed in Britain since the passing of the new dole Acts by the present Socialist Government, because the test known to logic as that of concomitant variations at once disproves such a theory.*

Similarly, the plea that chronic unemployment in Great Britain is due to Free Trade will not stand the tests of logical enquiry, for Free Trade is no new factor, and so cannot possibly cause sudden changes. I do not deny that our position as the only Free Trade nation in a Protectionist world may

† See diagram facing page 81,

be a cause of unemployment, and I certainly believe that a Protectionist policy would have a tendency to reduce unemployment ; moreover, I believe that Empire Preference is needed to hold the Empire together. But as long as the dole system continues we shall go on creating an ever-increasing number of unemployables which no trade revival can ever absorb. Germany is a Protectionist country, yet she has had chronic unemployment ever since she began liberal dole distributions, in spite of her undoubted industrial prosperity, as proved by her exports.

We hear a great deal about " world depression " ; but those whose one preoccupation is to exonerate the Government from all blame with regard to the present state of affairs overlook three important facts in repeating that parrot cry. Those facts are : first, that many countries are still prosperous ; secondly, that the chief sufferers in Europe are those which, like ourselves, have elaborate systems of unemployment insurance ; and thirdly, that much of the distress abroad is the backwash from our own troubles.

Sir Ernest Benn shews that not more than ten or fifteen per cent., at most, of the amount of our economic troubles can be due in any way to causes other than those to be found at home. <sup>1</sup>

There can, however, be little doubt that the great millstone which America has succeeded in hanging about the necks of her one-time allies is one other cause of the increasing depression. But again, this

<sup>1</sup> *Account Rendered*, page 6.



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is no *new* factor, being one of the many that have now been operative for years.

Unemployment in the United States has evidently different origins from that in our own country. Moreover, it is not chronic, as with us, having become a serious problem only within the last two years. A great fall in the prices of primary products cannot but upset the economy of a land where those products form its basis. Economic problems call, too, for a special study in a country which for ten years has sucked the wealth of Europe, and has become incomparably the richest in the world; though one may remark in passing that surfeit may sometimes become as unhealthy as starvation.

In the meantime, in England all parties go on pathetically wringing their hands and waiting for the trade revival that never comes; desperately seeking for reasons to account for our troubles which may accord with their own pet theories. But none will apply logical method and face the truth. They are committed to theories which, right or wrong, they must uphold; for their object is political power, not truth.

Moreover, since the public is wedded to the idea that National Insurance is a sound principle, it *does not want* to see it proved a failure. For this reason, not only the politicians, but the Press also will say nothing against the principle; for just as the politicians depend upon the people's votes, so the Press depends upon their subscriptions for its bread and cheese. Editors will, therefore, only publish the stuff people want and the opinions already held

by a respectable number. This is the freedom of the Press of which we boast. It is not, in practice, freedom of expression for all opinions, so that truth may conquer fallacies of thought, but freedom for editors to give the public the sort of dope they believe is wanted, in order that they may fill their own pockets. Even the boldest writers, therefore, like J. L. Garvin, will not or dare not attack the *principle* of compulsory insurance, but talk only of overhauling or "purifying" it in practice. It will be found, however, that this is not enough to save us. When one is on the wrong road it is not much good mending the road! *The principle of compulsory insurance is, I maintain, both uneconomic and dysgenic.*

How long can our fools' paradise endure?

With regard to my chapter on morality, I may here observe that the short space of four years has sufficed so far to change the ideas of the majority of people of all classes, that much of what I wrote in 1927 seems now almost old-fashioned. Good and bad tendencies have been at work. The revolt against family life is all to the bad, for it means the advent of a reign of selfishness. The love of offspring is Nature's most beautiful scheme for furthering human evolution, and its decline is a sure sign of racial decay. But the greatly lessened cruelty of our attitude to the unmarried mother is a welcome sign. Surely we might almost say to-day that the difference between her and her sisters is, more often than not, that she was too innocent to

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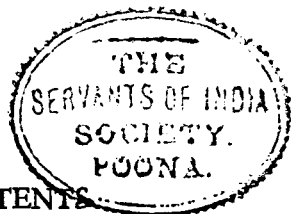
use contraceptives ! We must not condemn her on that account.

There is, unfortunately, very little tendency as yet to recognise the supreme claim which the well-being of posterity should have upon us, in the new moral code we are shaping at the present time.

In my earlier edition I ventured to suggest that the number of mentally defective individuals in our midst had nearly doubled in the past twenty years. Since then (in 1929) the Joint Committee of the Board of Education and the Board of Control has estimated the number in 1926 at 340,000, or *more than double* the Board of Control's estimate for 1906 !

In the words of Mr. Eldon Moore, " Seldom have uneasy suspicions, warnings, direct prophecies been so utterly justified as those of biologists and eugenists for the past twenty years are now justified by this report."

*London, January, 1931.*



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Those readers of *The Survival of the Unfittest* who are interested in the author's scheme for either a eugenic settlement or a eugenic orphanage, or both, are invited to communicate with him. All letters should be directed to Mr. C. Wicksteed Armstrong at the office of the publishers: The C. W. Daniel Company, 46 Bernard Street, London, W.C.1

# THE SURVIVAL OF THE UNFITTEST

## INTRODUCTION

THE wanderer invariably comes to take quite another view of life and life's problems to that of the average stay-at-home Englishman. He sees the very different values set upon things by different peoples, and gradually acquires thereby a truer sense of proportion. Half our troubles, both personal and national, spring from the lack of this sense, for to him that lacks it little ills may seem very big and may sadden a life that might have been happy, while really great evils may seem trifling and not worth battling against, so that they stay to breed others yet greater than themselves. The man who has no sense of proportion is unable to distinguish the crank from the true progressive or the bigot from the true conservative, and, if he has opinions at all, is likely to become himself either crank or bigot.

Travel and varied experience give us this sense, and the wanderer who returns is better able to see and to understand what is wrong with England than those who have lived here placidly all their lives. Like Mr. J. H. Curle, the talented author of *To-day*

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*and To-morrow*,<sup>1</sup> I have myself wandered for many years in far countries. During the best years of a lifetime I have lived in three countries and visited twenty. And though I have not been so far as Mr. Curle, my experience has been perhaps more varied, for I have followed many callings in different lands, which have enabled me to mix on equal terms with all grades of society.

In the present work, however, it is not my purpose to speak of far countries, or varied callings, but of this England of ours to which I have returned, to find her very different from what she was in the days of my youth.

The Briton often sighs: "Oh! wad some power the gittie gie us . . ." yet he very seldom makes any attempt to see himself as others see him. Perhaps in this I can help him, for I know very well just how he seems to others, since I have shared that view-point, or rather those many view-points, and much of what I shall have to say in the present volume may be taken as embodying the opinions held by thoughtful foreigners with regard to Britain.<sup>2</sup>

One thing has struck the author of *To-day and To-morrow*, as it has struck me, very forcibly, and indeed it must strike every observant traveller who studies humanity abroad and loves the Motherland.

<sup>1</sup> *To-day and To-morrow: The Testing Period of the White Races* (Methuen).

<sup>2</sup> Of course, the average foreigner knows no more of eugenics than does the Briton; yet he can see at once the folly, for instance, of giving relief to strikers from the rates and taxes. That this should occur in England is taken as one more proof that Englishmen are mad.

That one thing is, that England, possessing the finest human stock in the world, is at the present time doing all in her power to destroy it. She is making a huge and tragic mistake, throwing away her most precious heritage, more precious by far than empire or art or literature—the purity of her blood, the beauty, the strength and the character of her children. Of those who stay at home, only the most observant, the scientist, the statistician and the deep thinker seem to notice what is happening, but the wanderer who returns sees clearly.

I found myself lately sitting on the sands at an English West Country watering-place, watching the children paddle and build castles, and the young people bathe, and the thought came back to me, as it had on previous visits to the old country, but this time with overwhelming force: In no part of the world is there a finer stock, better worth preserving for the ultimate ends of Evolution, beautiful lithe young bodies, well built and well favoured; bright intelligent faces; kindly consideration for each other on this crowded beach. And yet, even here, among these holiday-makers, who are the middle and not the lowest classes—a middle class that has been the best in Europe—how many children show the marks of scrofula or the signs of rickets!

A few days earlier, in London streets, I had seen things far worse—things that made me sad; but on these sands, the contrast of a glorious inheritance struggling with what is vile was more striking, just because one saw so much that was beautiful. It brought home to one the fact that a differential



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birth-rate, obliging all ranks to recruit from the classes below, must cause the rot to spread slowly upwards.

The book just referred to, and one other, also published in 1926, but written in a very different style—cautious, scientifically exact, well-balanced, instead of boisterous and half humorous like the first—bring the same message; the message which is the essence of that real New Morality (not that which is commonly so-called) which must come and must be accepted if man is to be saved from the results of his own follies. In Mr. Curle's words, the message is this :

*"The rights of those to be born are greater than ours, and our most solemn trust."*<sup>1</sup>

The other book of which I am speaking is Major Leonard Darwin's *Need for Eugenic Reform*, and his message may be summed up in the following sentences :

*"Philanthropists ought to learn that by their efforts they may be continually helping to defeat the very aims which they have in view."*<sup>2</sup>

and

*"We should, of course, try to rid the world of all pain of mind and body now being suffered to-day, provided this can be done without causing more pain to-morrow."*<sup>3</sup>

It is chiefly "humanitarian" legislation that is

<sup>1</sup> Ibid., p. 71.

<sup>2</sup> *The Need for Eugenic Reform*, p. 418.

<sup>3</sup> Ibid., p. 478.

now deliberately destroying our fine stock. Put forward by politicians to satisfy an ignorant mob, and by idealists who ignore or think they can *supersede* natural law, it is bringing about the greatest tragedy of history.

I hear someone say that such language is exaggerated, and that a vague impression obtained on re-visiting England, after some years of absence, by looking at people in the streets or on the sands, is proof of nothing at all. Proof of degeneration can only be found, if it exists at all, in statistics. Unfortunately, however, statistics confirm the impression, as I shall shew later.

It is really the optimists who try to blind us to facts by vague observations. I read the other day in a leading article in one of the great dailies that "a nation which can produce a Captain Scott cannot be decadent." The writer apparently forgot that decadence does not run simultaneously through a whole nation, and may continue its destructive work among the rank and file for many generations before the best blood is finally eliminated. Others point to the falling death-rate as a proof that all is well, oblivious of the fact that this is, in itself, one of the chief causes of degeneration, since in keeping the weaklings alive, and enabling them to procreate, we do not diminish but increase their numbers.

Unfortunately, "humanitarian" legislation, though essentially Socialistic, is not promulgated by Socialists alone. It was Liberal statesmen who gave us National Insurance, the dole and the pauper vote, and now all three parties vie with each other

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in the ignoble struggle for votes, bought with bribes for the great crowd of the Unsuccessful, for which they search the pockets of the efficient. Under democracy, what hope is there of changing this, even though the wiser among us begin to see whither it is leading? The inefficient will always outvote the efficient.

It is this which has inclined me to think that our only hope of salvation lies in some such scheme as that which, in my ninth chapter, I have ventured to call "fascinating." And I think I am justified in so calling it, for I can imagine no more fascinating subject for thought and speculation than that of the really infinite possibilities contained in the scheme. If the reader loves his fellow men, and more especially his countrymen, I do not think he will accuse me of presumption, after perusal.

Democracy has failed because it is based on a fallacy. That fallacy is that the vote is a right, when in reality it is a function; for, since it is part of government, it can be properly exercised only by those who have at least taken the trouble to study such subjects as history, political philosophy, and, above all, logic, without which no man can think or reason adequately even for his own government, much less to enable him to govern others. One might as well expect the hand, the foot and the stomach to perform the functions of the brain, as require of the ignorant that they shall help to guide the destinies of the nation. It is argued that the exercise of the vote is of itself a most valuable educational influence. On the same principle one

might put a man who had no knowledge of the mechanism of a locomotive engine to run an express train, for the sake of the lesson in mechanics he might thereby receive.

Socialism fails because it, too, is based upon fallacies. It presumes men to be born alike, and to have, for this reason, equal rights. But biology tells us they are born quite *unlike*, physically, mentally and morally. Therefore, if the ignorant degenerate has the same rights as the intelligent and educated man, the ape must surely have the same rights as both. Socialism further presumes that the stimulus of competition is not needed in order to bring out the best work and the best results, because every man will naturally do his best whenever given a fair chance. The whole story of human evolution, however, contradicts this theory, for progress has never resulted without competition. To suppose that it will now begin to do so is to suppose that we know more about evolution than does Nature or her Author. And that is really exactly what the Socialist *does* think, in effect, and the main object of this book will be to shew that it is only by learning from Nature, in order to co-operate with her, along her own lines, that we can hope to progress at all. By thwarting Nature or despising her we invariably court disaster.

Another fallacy of the socialistic creed lies in the belief that every man can be rewarded according to his *needs*, whereas economic law demands that he be rewarded according to his *worth* to the community. Here again the modern legislator vainly

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attempts to force his ethics upon Nature, who, however, obstinately prefers her own.

These lines were first written during the fourth month of the great Coal Strike (1926) when it already seemed probable that the stoppage would end by the men slowly dribbling back to work. But what most people seem unable to grasp is that this would have happened much earlier if the strikers' families had not been getting relief, and the earlier it happened the better it would have been for everybody. In the official report of the Ministry of Health, many inspectors said so in plain language.

People say, "We will not fight women and children," but fail to see that by a policy of relief that merely prolongs the struggle, they are fighting in reality *the women and children of the rate-payer*. In strikes, the employers' only weapon is starvation, and if he may not use that either the men must win every time or the industry must be ruined to a greater or less extent, when the employers are physically unable to grant the men's demands. If therefore we cannot admit of the starvation weapon we must prohibit strikes altogether.<sup>1</sup>

Mr. Lloyd George, in his frantic efforts to make political capital, wrote to the American Press about the distress that, "but for charitable efforts, would have been too horrible to contemplate." And in his letter he said that the greatest hardship lay in the fact that mothers had to share the relief given

<sup>1</sup> I am told that this is absurd, for it cannot be done. But I have personally seen it done, and very successfully, in that former seat of continuous strikes and perpetual ferment—Catalonia.

to them and their young children with the fathers and the older children. Could anything make it clearer that relief merely prolongs the trouble, and in the long run intensifies the suffering? For if the fathers, that is the strikers, did not get that relief, they would necessarily go back to work. *With it, they never need do so.* In the meantime the taxpayer often has to stint his own family, and keep it as small as possible, in order that the non-workers may be at their ease. This is one of the many ways in which we are slowly exterminating the most productive classes, the backbone of the nation.

I have spoken of the cranks and bigots who abound in the land. The *successful* crank has dosed us with so many of his medicines that we are in a very bad way as the result. But he is not called a crank; he is called a leader. It is the man who cannot get a hearing for an unpopular cause that is called a crank. I take the true meaning of the word to be one who has so little sense of proportion that he mistakes something that is really of little or no importance, or something idealistic and perhaps harmful, for a boon that will be the saving of mankind. If this is so, it is evident that before we can say whether an earnest advocate of some new idea is a crank or not we must look into his arguments and weigh them. But the man in the street is generally incapable of doing this, and, moreover, unwilling. The ideas that are *unconventional* he puts down as fads, while a real fad, if fashionable, he is quite ready to swallow. So the man who gives us National Insurance is a great leader, while

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the eugenicist who tries to make us see its dangers is a crank, however scientific his methods.

It is the unthinking defender of all that is conventional who is the bigot; he will not think or is incapable of logical thought, and he blocks the way to all progress, and more especially to the removal of false creeds, whether religious or social, by his inability to distinguish the true from the false. At the very outset he dismisses the unconventional idea with the one contemptuous word *fad*.

Yet the world owes its progress to the unconventional, and the "crank" of to-day may be the revered teacher of to-morrow. All depends upon his sense of proportion and that of the community.<sup>1</sup> Will the eugenicist be the revered teacher of to-morrow? His sense of proportion is not at fault, as I shall try to shew, for nothing can be of more importance to humanity than the welfare of posterity;—but that of the community is. Until the public and our rulers have acquired some elementary knowledge of the laws of natural inheritance, the eugenicist will continue to be a "crank" and

<sup>1</sup>One of those often held up to ridicule as a typical crank is the anti-vaccinationist. Yet any sincere seeker after truth who studies *unsorted* statistics is bound to be convinced that the real crank (and a very mischievous one) has, all along, been the vaccinationist. Let no one give an opinion on vaccination without first reading the statistics in *Vaccination and the State*, by Arnold Lupton, and *The Vaccination Controversy*, by H. D. Taylor. (Daniel.) Still more illuminating is the pamphlet, *Smallpox and Vaccination*, addressed to the Health Committee of the League of Nations by the London Anti-Vaccination League (1930). If everybody read this the bubble would necessarily burst, and vaccination become a nightmare of the past!

decadence will go on apace. Can they be educated up to that pitch? That is the question upon the answer to which the future of the English race must depend, unless the eugenist makes up his mind to strike out independently, leaving the rest of humanity to its own devices. This is the scheme I have called fascinating.

In concluding this Introduction I should like to acknowledge the courtesy of the different Consuls whom I have consulted, and of the officials of the International Labour Office in Geneva, to which I owe much of the statistical information contained in my third chapter and elsewhere.



## CHAPTER I

### IS DEGENERATION A FACT ?

THOSE who speak of decadence are often called "prophets of gloom," "dismal Jimmies" and so forth. But, as a matter of fact, optimists often do more harm than alarmists, lulling us into a false sense of security, while with their soothing arguments they succeed in convincing a world, pre-disposed to imagine all is well, that prudent action, while there is yet time, is quite unnecessary.

What we need to know really is *the truth*. We do not want to see things through rose-coloured spectacles, nor do we want to be alarmed where there is no cause for alarm.

Ludovici remarks, in his *Man: An Indictment*, that when speaking to Englishmen about racial degeneracy, he is generally met by indignant and perhaps angry replies about "the magnificent performance of our men in the Great War," or about the decline of smallpox, plague, etc.—or again, evidence adduced by the examination of old armour, according to which modern man is bigger than were his ancestors.

As to the first of these arguments, he points out that courage is the oldest of virtues, and that we may have degenerated in many respects and still

not be devoid of courage, for indeed many savages possess it in a high degree. It might also be hinted that many of those who served in the war did so, not from choice, but on account of conscription; and that, though they fought well, many hundreds of thousands of the bravest were killed and cannot therefore be counted among the men of to-day. This massacre of the flower of our race is indeed itself one of the reasons for the racial degeneration now occurring.

As to the second argument, if sanitation eliminates many infectious diseases, this does not in any way affect the quality of the national germ-plasm. Only hereditary diseases have to do with this.

Then, as to the old armour argument, Ludovici shews it to be based upon a myth due entirely to false information and false deductions.

He also mentions the argument from the falling death-rate, and reminds us that this may simply mean that medical science is now able to secure long life for the unfit, and thereby actually produce degeneracy in succeeding generations.

Unfortunately, the question of racial degeneration cannot be dismissed as easily as some optimists would have it. There are not the necessary statistics to prove that all is well, and it is very difficult to prove conclusively the contrary, for want of certain essential figures. It would be very easy for the Government to place the matter beyond the sphere of controversy by giving us from time to time definite statistics with regard to mental defect and

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all hereditary diseases.<sup>1</sup> But up to the present this has only been done in a very scrappy and unsatisfactory manner.

I think, however, that some of the figures that are available, though leaving much to be desired, cannot be called ambiguous, and that an unbiassed enquirer, who does not allow the wish to become father to the thought, can eventually come to but one conclusion.

Dr. Tredgold, medical expert to the Royal Commission on the feeble-minded, says :

“ My enquiries have convinced me that mental defect is but one manifestation of disease which is slowly but surely eating its way into the heart of the nation.”

He also tells us that the lowest estimate that can be made of the total number of persons suffering from different kinds of mental defect in England and Wales is at present well over 260,000.<sup>2</sup> Another estimate is 300,000, and good reason has been shown for believing the truth to lie rather above than below that figure. Nineteen years ago the Board of Control estimated the total number at 150,000. In my first edition (1927) I said I did not mean to imply that there had necessarily been an increase of a hundred per cent. in nineteen years, for the term “ mental defect ” is elastic, and estimates are extremely difficult to arrive at with the figures available;

<sup>1</sup> Since this was first published, a joint committee of the Board of Education and the Board of Control has issued these much-needed statistics as regards mental defect. See page 27.

<sup>2</sup> *Mental Deficiency*, 4th edition, pp. 14-15.

but when we find that all authorities are agreed that defectives breed and multiply much more rapidly than normal people—Dr. Gibbons, gynæcologist to the Grosvenor Hospital for Women, says from two to six times as fast—and that most authorities believe mental defect to be increasing rapidly, we have, to say the least, food for reflection.

Now, in 1931, I am able to point to the Report of the Joint Committee of the Boards of Education and Control, which actually estimated the numbers in 1926 at 340,000, or *more than double* the Board of Control's estimate for 1906! Furthermore, to this immense number we have still to add nearly 150,000 notified insane, bringing the grand total up to about half a million!

Sir W. Arbuthnot Lane says :

“Some optimists are in the habit of stating that our race is improving physically, that we never were better. That this is absolutely false and that the reverse is true can be demonstrated in the clearest manner possible by a comparison of the published description of the physique and teeth of the soldiers of Wellington and their wives, who were exposed to constant hardship, with our soldiers of the present day, living in comparative luxury.”<sup>1</sup>

Major Darwin says :

“Defective intelligence is undoubtedly associated with great fertility; and it is not therefore surprising to learn that thieves and other petty

<sup>1</sup> Signed article in the *Daily Mail*, 9th Nov., 1926.

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offenders, whose stupidity is unquestionable, spring from amongst the most fertile stocks in the community.”<sup>1</sup>

Again :

“ As regards English criminals generally, except those convicted of fraud, they are generally markedly inferior to the general population in stature and bodily weight.”<sup>2</sup>

That is to say, the most fertile stocks in the country are those which give us mental defectives, petty offenders, stupid individuals and persons markedly inferior in stature and bodily weight. Major Darwin, whose methods of enquiry are pre-eminently scientific, has come to these conclusions after weighing the evidence contained in Goring's *The English Convict*, and from many other sources. His final answer to the question “ Is the race deteriorating ?” is this :

“ Almost every class must on balance be receiving additions from below, and must, in consequence, be suffering from the inferior quality of its recruits. In short, as far as we can judge from the facts at our disposal, the nation as a whole is slowly and steadily deteriorating as regards its average inborn qualities.”<sup>3</sup>

Dr. Heron told us in 1906 that “ where there is more general pauperism . . . there the birth-rate is highest.” And this fact has been confirmed by

<sup>1</sup> *The Need for Eugenic Reform*, p. 216.

<sup>2</sup> *Ibid*, p. 211.

<sup>3</sup> *Ibid*, p. 327.

innumerable authorities and by statistics. The continued high birth-rate of the lowest classes, combined with a low and steadily falling birth-rate among the better, must of necessity lead to deterioration.

Sir George Newman says that in the elementary schools of England and Wales a million children are so physically or mentally retarded, defective or diseased as to be unable to derive reasonable benefit from the education provided by the State; that even in the healthiest areas 10 per cent. were found just before the war to suffer from grave physical disability, 20 per cent. from defective vision and 60 per cent. from bad teeth.<sup>1</sup>

It has been estimated that something like 50,000 children of school age are to-day suffering from organic heart disease, while 80 per cent. of children attending our council schools are suffering or have suffered from rickets.

Dr. J. R. Kaye told the Leeds Health Congress before the war that in England and Wales there were 4,800,000 children unsound in body or mind.

During the last stages of the war 40 per cent. of recruits were described as C3.

During 1924 not less than 82 per cent. of recruits

<sup>1</sup> *Note to Second Edition.*—At the moment of going to press, I have seen notices of Sir George Newman's latest work, *Health and Social Evolution*. From these it would seem that he fully recognises the dangers, both economic and racial, of pampering the unfit, as we do, but unfortunately he lays more stress on the improvements in public health brought about of late by purely environmental influences, which, as I have tried to show in the present work, are almost entirely illusory, than he does upon those very real dangers.

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for the army were rejected as unfit,<sup>1</sup> while only one out of every twenty men examined for the police force was found to be of the physical and mental standard required. Recent naval rejections have been 90 per cent. and more.

One out of every seven men of working age in this country dies of tuberculosis, and about the same number from cancer.

According to the report of the Ministry of National Service, for the years 1917-1919, and the Anthropometrical Committee of the British Association, in 1883, the average height, chest girth and weight of boys of 18 years of age for these years respectively, for the whole country, were as follows :

	1883	1917-1919
Height in inches	66.9	65.1
Chest girth in inches	34.2	32.2
Weight in pounds	131	116.5

As to venereal diseases, whose evil effects are passed on "to the third and fourth generation," it is well known that they have become more common since the war. Before the war, it was estimated (in 1913) from facts supplied by the Royal Commission, that their incidence was something like 20 per cent. of the whole population.

If these facts are not enough to convince the reader that there is little ground for optimism, let him consider what *must* be the effect, in the long

<sup>1</sup> *Note to Second Edition.*—Since then the percentage has tended to increase. We must remember, too, that, presumably, only men apply who suppose themselves up to standard!

run, of the differential birth-rate.<sup>1</sup> It is a well-known fact, as has already been stated, that fertility is in inverse ratio to social status.<sup>2</sup> Now, social status is not exactly correlated with eugenic value, but it will be found to be so roughly, because social status depends more upon income than on anything else, and income depends, in the majority of cases, roughly, upon efficiency. Whatever those who are embittered by failure in their own lives or their friends' may be inclined to think, it is a fact that, as a general rule, the more a man earns the more efficient he is likely to be as a worker, whether of hand or brain. Let those who doubt it look not only to a few exceptionally unfortunate cases; but make a list at random of the names of a hundred workers known to them, with the earnings of each, and then consider which is on the whole the more handy, intelligent or reliable set of men, the fifty who earn more or the fifty who earn less. Of course, inherited wealth and other facts tend to vitiate the correlation, but, in spite of all, it remains generally true.

As Mr. Arthur Ponsonby says :

“ There is something almost nauseating in the exceeding comfort, the cloying surfeit, the callous contentment, the stagnant indolence, the self-

<sup>1</sup> True, deterioration might not follow if there were also a compensating differential death-rate; but this is not the case. Moreover, “ philanthropic ” endeavour is actively engaged in diminishing what differential death-rate there is, and is thereby speeding up degeneration. See *The Population Problem* by A. M. Carr-Saunders, Clarendon Press.

<sup>2</sup> See *Fertility of Social Classes*, by Dr. Stevenson. Royal Statistical Society, May 1920, p. 410.



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satisfied sleekness of the thoughtless well-to-do. When one thinks of the great national concerns, the problems of the wage-earners, the great life of the millions who are struggling, fighting, working, and all the while contributing ; when one considers the achievements of the creative arts, the mysteries of science, the ceaseless vigilance of the human mind inquiring and searching for better things, the whole throbbing pulse of active human life : and then turns to these little lordlings and their satellites, their admirers and their mimics, selfishly isolated in busy idleness, surrounded by their ideals of fashion and vanity, it is like turning from a volume of Shakespeare to read *Comic Cuts.*" (1)

Yet how many people are there in England answering to this description ? Perhaps fifty thousand. When the feeble-minded, the unemployable, the paupers and the botched physically or mentally of every description are to be counted by the million, those fifty thousand are seen to sink into comparative insignificance.

However true, therefore, it undoubtedly is that many of our idle rich are a disgrace to the social class to which they belong, yet in enquiries such as this one of racial decay we have to consider averages and general rules, not the special cases of relatively small minorities.

It has been said that an eugenist is a man who suffers from a superiority complex, and the working

<sup>1</sup> *The Decline of Aristocracy* (1912), page 142.

man is apt to resent the assumption that those socially above him are his superiors. We are not, however, concerned here with people's feelings, but simply and solely with the truth. Systematic enquiry has shewn that, generally speaking, the upper and middle classes are physically and mentally superior to the lower, and skilled to unskilled workmen, and that is the point which is relevant to our argument.

Mr. H. S. Wilson, Superintending Inspector of factories in Scotland, has given the average height and weight of recruits, according to the medical examination, as 5ft. 9in. and 11 stone 11 lbs. respectively, for public school men, and as 5ft. 2in. and 8 stone 12 lb. for Glasgow unskilled labourers.

Further, it is a well-known fact that the highest incidence of mental defect and hereditary disease is to be found among the labouring and unemployed classes, especially the inhabitants of the slums.

It is, therefore, only by taking the view current in Russia to-day, namely, that intelligence is a damnable thing, and adding to this a theory that health itself is undesirable—only so can we conclude that the social classes with most hereditary defect are the equals of those with least.

Now the result of the differential birth-rate, first noticed about the end of last century, but now shewn to have existed much earlier, is that the more efficient sections of the community must necessarily tend to die out, and the less efficient to increase in numbers, relatively to the former.

From *The Population Problem*, by Carr-Saunders,

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we may learn much about these facts ; and the extent of the disparity in the birth-rate among classes of different eugenic values may be gathered from the following figures, given by him, and made up from material furnished to the private Birth-rate Commission by the Registrar General, for the year 1911 :

*Births per 1,000 married males under 55 years of age*

Upper and middle classes .....	119
Skilled workmen .....	153
Unskilled workmen .....	213

Dean Inge, who quotes the above figures and others in the chapter on "Industrialism" of his book, *England*,<sup>1</sup> also compares, as an extreme case, the Finsbury birth-rate of 41 per thousand of the population, with that for the city of Westminster, which was 9.

Now the significance of this differential birth-rate becomes evident when we consider the fact that science no longer admits any doubt as to the hereditary nature of moral and intellectual characteristics, as well as physical, so that from inferior stock we cannot possibly reap good. This being so, it is certain that only very drastic measures taken by our rulers could save us from the tendency to degeneration which the differential birth-rate brings with it, and to which every previous civilization has eventually succumbed. For recent investigations have shewn that one of the chief causes of the fall of former empires has been this same tendency, when wealth accumulates and the arts and sciences

<sup>1</sup> p. 210.

flourish, for the more intelligent and efficient to become relatively sterile, while the shiftless, decadent classes breed like prolific animals. But if, in place of drastic legislation to combat this tendency, our rulers actually foster it and intensify its evil effects, as will be shewn in the next chapter, what are we to expect ?

As just stated, all ancient civilizations appear to have developed in time this differential birth-rate, while continual warfare, and the slaughter of the superior stocks in various ways, hastened the decay. We know this ; we have seen it happen again and again in the world's history, yet, in our blindness, in spite of having access to sources of knowledge and experience which they had not, we follow up our Great War, which killed off the flower of our race on a scale hitherto unknown in history, by legislation more and more dysgenic, better and better calculated to hasten the catastrophe which we refuse to see approaching.

This we owe to democracy, government by an ignorant majority ; for, naturally enough, the ignorant have no care for the future of our race, and if they had, having studied neither history nor science, nor even current statistics, they could not be expected to act with foresight in such matters. Their chosen rulers, knowing this, think more about ways and means of adulating the masses than of warding off distant dangers while there is yet time. Thus the price of silk stockings is a matter of more importance to the politician than the decay of the race, for an election might be de-

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cided on the former point, but not on the latter ; while to bribe a corrupted majority with money extorted from a still virile minority is their chief care.

During four years, the pick of our manhood went to drain its blood on the fields of Flanders and elsewhere. During that time the old, the cowardly, the feeble and the diseased remained at home to procreate. In the last year of war, Sir George Newman tells us, seven men in every nine among the recruits examined were either on a definitely inferior plane of health and strength, or incapable of undergoing more than a very moderate degree of physical exertion, and could be almost described, in view of their age as physical wrecks, while one in nine was a chronic invalid. The chief preoccupation of Government at that time should have been to prevent these men becoming the fathers of a large proportion of the coming generation, which may again be called upon to face a would-be invader. Instead, however, Mr. Lloyd George gave us the pauper vote, in 1918, of the truly disastrous effects of which I shall have more to say in a later chapter.

Such are the effects of war, "charity," modern legislation and curative medicine on the physique of twentieth-century manhood, that in nearly every "Christian" country, including our own, the stature exacted for military service has had to be constantly lowered of late. In Spain, with her eternal colonial warfare, it has been lowered four times in the last forty years.

There is great confusion of thought in the popular supposition that by continually improving environ-

ment we can prevent degeneration, and, in another conclusion derived from the same false premises, that when we see children looking healthier than their parents there can be no degeneration: Both these wrong ideas are due to the astounding ignorance prevalent, even among educated people, of the elements of the science of heredity.

Every individual depends for his development upon two factors—heredity and environment. One of these being defective, much improvement may come about through the other being above the average, but it is impossible in such a case to have as sound an individual as if both had been good. The first of these factors a man gets from the germ-plasm of his parents, and the second through all that happens to him from the moment of conception onward

Thus you may have an individual with a splendid inheritance from his fathers, but who nevertheless turns out a wreck owing to bad environment. And you can also have an individual with a very defective heritage, who nevertheless looks healthier than did his father at the same age on account of greatly improved environment. It will be seen, therefore, that appearances cannot tell us definitely whether there is degeneration or not, and also that by improving environment you are likely to *go on for a certain time improving appearances*, but there must come a time, if you neglect the hereditary factor, when improvements in environment can no longer prevent a more or less rapid downfall.

It is no use, therefore, pointing either to the

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falling death-rate—which means, amongst other things, that the inefficient (who are in the majority) are living longer and producing more of their kind—or to any real or fancied improvement in the appearance of a population, due to improved environment; nor even to a reduced incidence of non-hereditary diseases, since none of these things touch the question of degeneration.

The only way to solve the question as to whether or not degeneration is actually taking place, *in spite of appearances*, is to note the incidence of hereditary defect and hereditary diseases. We find, on enquiry, that it is just these which are either stationary or increasing, in spite of improvements in environment.

It should also be borne in mind that the more defectives are segregated the better will be the superficial appearance of the population seen in the streets, for the worst cases are all hidden away, and nobody realizes their number, which it is very difficult to get at from official statistics, since these inform us almost exclusively of the incidence of ordinary infectious diseases.

If we could see the hundreds of huge buildings now devoted to the care of imbeciles, madmen, and all suffering from diseases with hereditary tendency—if we could see them all together, covering acre after acre, stretching away for miles toward the horizon in every direction—we should be struck dumb with horror. But if, instead, we take a walk through Hyde Park on a bright Sunday afternoon, and see apparently happy and healthy thousands on

every side, we say, "all this about degeneration is obviously mere nonsense."

Says Professor Berry, Director of Medical Service, in the Stoke Park Colony, Bristol :

"Some human idiots are such stunted, misshapen, hideous and bestial specimens of morbid humanity as to arouse feelings of horror and repulsion rather than of pity or levity. Unfortunately, those tender-hearted humanitarians who raise a howl of protest at the mere mention of sterilization or the still more kindly lethal chamber *have never seen these things*, and so do not realize that the human body without a brain is something worse than the beasts of the field."

It should be realized that nothing is known in the way of environment which can beneficially affect the germ-plasm, though alcohol and venereal poison appear to affect it harmfully. Otherwise, with rare exceptions, each individual passes it on to his descendants just as he received it from his ancestors. Degeneration comes about because some children inherit the worse characteristics of their ancestors and become inefficient ; also by injurious hereditary "mutations." If the children shewing these characteristics or mutations survive and multiply more than the others decadence must necessarily follow. The only way by which the germ-plasm can be improved is not by environment but by diminishing the fertility of degenerate stocks and increasing that of those above par.

"No horticulturist of experience would propose



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to produce from the dwarf pea a permanently taller race by a process of manuring. There is little doubt but that the seeds from the richly manured and those from the normally grown plant would, when raised under similar conditions, each produce a row of plants indistinguishable in point of size.”<sup>1</sup>

In the same way it is certain that the breed of men can never be appreciably improved by environment alone, though the appearance of any particular generation may be changed.

Apart from figures, statistics and scientific considerations, what do we find if we study the life of the people of to-day and the trend of popular taste? Generally speaking, novels, films and plays must be full of sex if they are to be successful. Had Sir Walter Scott lived to-day, one wonders which publishing house would have accepted *Waverley*. In sculpture and painting the cult of the hideous is replacing that of the beautiful. The same is true of music and dancing.

The poetry we are expected to admire most is that which nobody can understand—in other words, the silliest.

The Government controls British broadcasting, but instead of making any attempt to educate public taste, it allows our ears to be filled night after night with the horrible din of “jazz,” which to-day usurps the place of music. I have heard many foreigners remark: “We never listen in to London now, because we are tired of jazz, and seldom get

<sup>1</sup> R. C. Punnett, *Mendelism*, Macmillan & Bowes, 1907.

good music. You can hear better music from almost any station on the Continent."

The idiotic "Charleston" and "Black Bottom" are the latest substitutes for the graceful waltz, and the still more graceful minuet of once upon a time.

In many things we ape the Americans, who, in their turn ape the negroes—the least intelligent of human types.

Crime in this country is said to be diminishing. Not so, however, crimes by and against children, which are both increasing; especially brutal assaults on children, often followed by murder. Here again we are able to appeal to statistics, to a certain extent. From the Report of the Departmental Committee on Sexual Offences against Young Persons, 1925, we can, by taking the figures relating to "persons tried," form some conclusions as to this sort of degeneration. The average number of persons tried annually from 1909 to 1913 was 884; from 1910 to 1914 it was 917; from 1919 to 1923, 987, and from 1920 to 1924, . . . 1058. One would like to have figures relating to convictions, especially in cases of extreme violence, murder and mutilations. But these are not furnished. A large proportion of the offenders are shewn to be mental defectives, but this condition, when present, is frequently unrecognised by the courts. Even where mental defect is evident, it seems that it is often found impossible to certify it, on account of the wording of the Mental Deficiency Act of 1913.

It is perhaps fortunate for us that most "Christian" countries are shewing the same tendencies as

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ourselves, though in none are they, for the most part, so pronounced as with us, a fact evidently due to "humanitarian" legislation, in which we take an unenviable lead. But what will happen to us after other nations have begun to put eugenic principles into practice, and the breed of their men begins to improve as rapidly as ours deteriorates? Says Mr. Curle :

" I can see Germany, unrepentant and bursting with people, again attacking in fifty years. The Germans of that day will be weeded out, and highly efficient."

Although, of course, this is possible, to me it hardly seems likely in the case of Germany, for she is at present suffering from precisely the same tendencies as ourselves, due to socialistic legislation. But there are other peoples—the Italian, for instance—that require new lands for racial expansion. I should put the period of waiting and recuperating down at considerably less than fifty years.

Nothing seems to me more certain than that the nation which first begins to *breed for efficiency*—denying the right of the scum to beget millions of their kind, to be a financial burden, a military danger and a source of suffering untold to future generations,—is the nation destined to rule the earth, whether it be Italy, Germany, Great Britain, America or Japan. Says Major Darwin :

" Woe betide the nation which sees other nations advancing in racial qualities, whilst

allowing itself to become so degenerate as to be unable to defend itself when the pinch does come !”

Are we deteriorating? Surely, if there is any doubt upon a subject of such vital importance, it is the first duty of the Government to enquire into the matter, clear up all doubts with figures that cannot be disputed, and, if it be found that we are decaying, take the necessary steps to prevent the process from going on. Those steps would, I believe, necessarily consist first of the repeal of much so-called social reform, and, secondly, of definite measures for preventing the lowest from procreating, and the offer of inducements to the efficient to have large families, instead of mulcting the latter with intolerable taxation, for the benefit of the former.

It is therefore urgent that the Ministry of Health should give us periodically the statistics needed.

A Royal Commission, too, ought to be appointed without delay :

(1) To enquire into the incidence, past and present, of all diseases alleged to have an hereditary tendency of some sort, and especially mental disorders ;

(2) To enquire into the tendency of such incidence to increase or to decrease ;

(3) To enquire into the supposed hereditary nature of such diseases, disorders or defects ;

(4) And to make recommendations for the reduction of such incidence.

## CHAPTER II

### HUMANITARIAN LEGISLATION

IT is a common saying among thinkers of the Socialistic school that Natural Selection has long ceased to be operative as far as humanity is concerned. It has, they tell us, been superseded by Christianity, conscious effort and toleration.

This belief, which appears to justify a certain class of social reforms, in spite of their evidently dysgenic effects, is, however, based upon a very mischievous confusion of thought, which has never, so far as I know, been adequately shown up. It has, therefore, seemed to me to be most important that the true state of the case should be realized, for matters of transcendental import to the human race are now being determined upon data which, if false, must lead to catastrophic results.

Natural Selection in its ordinary action, uninterfered with by man, brings about the Survival of the Fittest. By lethal selection the weakest, the slowest, the dullest—in a word, the least efficient—die early and leave few descendants; by mate selection those who possess qualities that make them attractive to the opposite sex are more likely to leave progeny than their less fortunate rivals. This is true of both man and the animals in a wild state.

The law, however, which causes this to happen were better not called the survival of the *fittest*, because it is only when Nature is left to work out her own beneficent ends in her own way that the fittest will survive. Now, natural law operates always in the same way, quite independently of anything that man may do; therefore if man can prevent the fittest from surviving, their survival is not due to invariable law. If, however, we enunciate the law somewhat differently, it will be found to cover all cases, and will be seen to be as unalterable and as adamant as the law of gravitation itself. For this purpose we might state it thus: *In virtue of heredity, such types of men, animals and plants will tend to survive as may possess characteristics enabling them, in a given environment, to live and to reproduce their kind with greater ease than others not so endowed.*

Nature makes use of fixed laws to bring about good results, and through that just enunciated she has developed in man, and to a lesser degree in the animals, many admirable qualities, which we may well think of as being attributes of the divine. Such are intelligence, courage, beauty, and, above all, love. Man has used the same law for the purpose of developing in plants and animals qualities merely useful to himself, such as abundance of milk in cows, of eggs in poultry, of flesh and wool in sheep.

Allowing only such individuals as possessed the required qualities to live in ease and to reproduce their kind, he has brought about, more rapidly than Nature herself, the results he had in view. In breeding for utility no one ever pretended to have

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superseded Nature, but rather to have learned from her and imitated her methods. In fact, the whole science of artificial selection is based upon a very close study of Nature, which, with the discovery of Mendelism, has become very intricate, but more and more productive of wonderful results.

In the case of his own breed, however, infinitely more important to man than that of any animal, he has almost entirely neglected the study of heredity, and, far worse than allowing breeding to go on haphazard, has been deliberately interfering, now, for many generations, with a view to *helping the unfit to survive* and reproduce their kind; and the extraordinary excuse for such interference with the divine plan of Evolution has been that in man Natural Selection is no longer operative. Not only is the law, as above enunciated, just as inevitably operative in all times and places as every other natural law, but we are now beginning to see, in spite of ourselves, the very unpleasant effects of enabling the unfit and unsuccessful to live with greater ease than the fit,—greater ease, because they can now live without working, while the fit must work hard to maintain not only themselves but an ever-increasing number of parasites as well. Indeed, since the families of the unfit must not be allowed to suffer from want,—such are the dictates of “humanitarianism,”—the fit can less and less afford to have families themselves, lest those of the inefficient should go hungry.

To say, then, that Natural Selection is no longer operative in man is nonsense, because natural law

is immutable. But any given law may produce different results to-day from those of yesterday, when new factors arise to complicate matters. Thus, if we make unfitness in any way more advantageous for procreation than fitness, this will tend to make Natural Selection cause the survival of the unfittest instead of the fittest.

By heavy taxation we penalize success ; by the dole, the Poor Law and public or private charity in a hundred forms we encourage the weak, the defective, the shiftless and the unsuccessful, not only to continue in their present condition, but to breed freely. We even give them extra help for every child they produce, and although the amount given may be insufficient to keep that child in comfort, yet to the improvident and the selfish it acts as a real incentive, for it is certainly made to yield, in many cases, extra comforts for the parents, even if the child goes hungry in consequence.

Every sane man knows instinctively that the proper cure for unemployment is useful relief work, *and no cash relief without work of some sort*, even if unproductive. Military drill could easily be given, where useful labour was found impossible. Yet, up to the time of writing, our Governments one and all have failed to organise anything effective in this way, and are content to fall back on the wretched system of dole distribution.

Relief work for the unemployed has been successfully tried in many countries. I have personally seen it working admirably and on a vast scale in Spain under the late Dictator. It is now to be



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carried out on a still vaster scale in America. But in Britain the Mandarins have said it is *impossible*; so most of us wag our heads and repeat in chorus: "Impossible, impossible!"

It may indeed become impossible in Britain when we have so greatly demoralised the unemployed by means of the dole that they are no longer capable of work at all. That is where the greatest danger lies. The chief difficulties alleged, as pretexts for criminal inaction, are, first, that such schemes are necessarily wasteful, because the unemployed, being generally unfitted for the sort of work required, do it badly; and secondly, that trade union rules make all such schemes impracticable.

To these two objections the obvious answers are that poor work is better than none at all, especially for the recipients of relief, and partial waste of public funds is better than total waste; and infinitely better than spending them upon this systematic demoralisation of the people. Then, if trade union rules stand in the way of national need, such rules should, of course, be declared inapplicable. But Governments are afraid. The true reason, however, for the failure of so many schemes for relief work in Britain seems to have been the adoption here of the principle that, however poor the exertion and indifferent the work, the labourer must be paid a good wage. *But this cannot be done.* It is contrary to economic law and must of necessity prove fatal to success. It must needs, therefore, be abandoned, in spite of the sentimentalists, and reward must be according to merit.

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By National Insurance again we penalize health and strength, and make the man who puts his faith in healthy living and sticks to his work through thick and thin (our best stock) pay "through the nose" for the exclusive benefit of those who lack this hardiness.

Thus we take from the fit and give to the unfit. We prevent the fit from reproducing their kind by making even single life more and more difficult for them, while we reward the unfit for doing so by not only helping them to rear their offspring but often actually putting money into their pockets. In other words, we deliberately hand over the advantages Nature intended for the successful to those whose lives, from one cause or another, are a failure; enabling them to live and reproduce with greater ease than the healthy, the intelligent and the strong. True there are some deserving people who are unsuccessful, but policy must not be framed to suit only the exceptional cases; it must look first to the effects it is likely to produce as a general rule; and actual results confirm what a study of Nature might have made plain to us in advance—namely, that no surer way could possibly be devised for bringing about the Survival of the Unfittest than that of systematically taking from the fit to give to the unfit.

In the words of Professor E. W. Macbride :

"The Roman Empire fell because the breed of Rome died out. If we go on playing the fool, encouraging the growth of the less thrifty part of

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the population, and robbing and penalizing the more enterprising, perhaps not in our time but eventually, our civilization will go under just the same as many others have done."

Not the least of the evils resulting from the dole is the fall in the numbers of emigrants to our colonies. If this continues, our privileged position, as the race that is peopling half the earth, will go ; this invaluable heritage will be lost for all time. Perhaps it will fall to the yellow race, which would be an irreparable loss to humanity as well as to ourselves.

It is, of course, urged that morality will not allow us to act in any other way, for we cannot allow any human being to die of want, while there is a possibility of helping. But, in the first place, between dying of want and receiving a dole that is often equal to the wage of a hard-working man, there is a considerable difference, so that even if we accept the doctrine that no human being must die of want, we yet have no excuse for penalizing the workers and pampering the non-workers to the extent we do, and certainly not to the extent that Socialism would wish. In the second place, if God helps those who help themselves, we presume to know more about morality than God himself, when we insist on helping those who will not help themselves, for although not all those we help are in this case, yet there is not the slightest doubt that many are. Also, if we set Nature's plans at nought and actually produce the opposite results to those which are her evident purpose, are we not again presuming to

know more about morality than God himself? For who is the Author of Nature and of natural law but God?

There is yet another answer to this plea of the humanitarian as to the demands of morality. To force everybody to do what you think moral is not to make men moral. A good action must be voluntary; therefore let any man whose Christianity may not help him that way save his poorer brother. But we cannot in the name of morality force anybody to do so.

In the same way, if thrift is a virtue it cannot be compulsory. By forcing people to insure you cannot teach them thrift or make them thrifty. In fact, you kill thrift as a virtue.

Again, it is urged that many of those whom our humanitarian laws are designed to help are quite *unable* to support themselves. There is, however, a growing tendency to enquire less and less into the possibility of a man earning a living of some sort before granting him State aid. Trade union rules, and the interpretation of such rules by non-workers themselves, so as to avoid an undesired job, are far oftener responsible for such "inability" than is anything else. Even Parliament has now gone out of its way to prevent enquiry before relief is given. Then, again, the inability to work does not, unfortunately, bring with it inability to procreate, and unless public aid looks to this, it must, as we have seen, inevitably result in defeating its own ends by increasing in the future the very suffering it seeks to alleviate in the present.

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There are, however, the ex-service men, and God forbid I should seem to belittle their claim upon the gratitude of the nation. Yet it would be preferable in every way to declare at once that these men need work no more, and give a pension to every one, rather than grant generous relief and doles to every man that is out of work, whether it is in consequence of trade union rules or his own fastidiousness as to the work he will do, and whether he has served his country during the war or not. The number of ex-service men will decrease year by year, whatever course we pursue, while that of the unemployed must tend always to increase, as I shall endeavour to shew in a later chapter, as long as we go on with our present system of relief.

From whatever point of view we look at the question, it is difficult to see what warrant there is for Socialism to assert the moral claim of the unfit to live in comfort upon the earnings of the fit.

Certain critics of my first edition wondered why the poor man who draws the dole should be called a parasite, but not the rich idler who lives on dividends. They took it for granted that I thoroughly approved of the latter individual. I don't know, however, why they should suppose anything of the sort ; rather should they take it for granted that he who condemns one sort of parasite will by no means love the others, more especially the idle. If, however, a man has worked for many years and saved enough to enable him to live upon dividends, or if he has made a fortune and devotes a considerable part of it to philanthropy as he

understands it, he certainly cannot justly be called a parasite. But one reason why the *rentiers* who live in complete idleness and have never worked are less harmful than the dole drawers is because they are less numerous. Another is that they pay taxes instead of consuming them. Furthermore, it will be found much more difficult to get rid of them than it would be to check the distribution of doles to undeservers. Anyhow, two wrongs don't make a right.

I have spoken of such legislation as tends to level up the advantages of fitness and unfitness, or rather give the better chances of survival to the latter, as being socialistic. Yet many who will not accept for themselves the name of Socialist look upon this tendency in "social reform" as inevitable, and even desirable. The Liberal Party has indeed done more of this levelling during the present century than socialistic propaganda could ever have effected without their help; while even the Tories seem to have quite settled down to the idea that this sort of legislation is all right.

But whether socialistic legislators label themselves Socialists or prefer to retain the time-honoured names they no longer deserve, it is the socialistic creed that has consistently advocated the abolition of that competition which has been the moving power of progress up to the present. Competition is the essence of that struggle for existence through which Nature brought about the Survival of the Fittest, and is therefore the key-note of Evolution. But Socialism has invented something better: the

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strong must be mulcted till they are reduced to the level of the weak ; the skilful to that of the unskilful, and the genius to that of the defective. By these means we bring about what Socialism seems to contemplate with perfect equanimity, apparently believing it to be an improvement on Nature ; namely, the Survival of the Unfittest.

It has well been said that Socialism is based upon a negation not only of economic but also of biological law.

Let us consider for a moment what this pretension of superseding natural law really means. Through the agency of the Survival of the Fittest, Nature has, through countless ages, performed the miracle of miracles, the evolution of Man from the original protoplasm. From the primeval dust life was produced, by means at which we cannot even guess ; and once produced, it began to develop. This process of development has, in course of time, brought into existence all the marvels that biological science reveals to us—marvels so great that no human intellect can grasp more than a tiny fraction of the inner meaning of any one of them. We see, however, that Nature's first care throughout her age-long labours has always been to preserve the best, and, through the machinery of heredity, perpetuate her greatest achievements.

And now at last has come a time when man thinks he knows better than Nature, and expects, apparently, to hasten his progress by *reversing* the process, substituting for the fittest the unfittest. True, not all men are so foolish. It is significant that just at

the time when scientists are discovering how we might really speed up human evolution by working on Nature's own lines—*by co-operating with Nature and with God*—and have begun to teach us the noblest of all sciences, that of Eugenics, the politicians have ignored the warnings of science and have pandered to the ignorance of the mass of voters, forcing us, in order that they may get votes, to accept legislation that, by vainly trying to thwart Nature, must be our own undoing.

God save us from the politicians! Perhaps some of the nations of Southern Europe are wiser than we in their generation. They have abolished the politicians—and democracy.

I have said that the humanitarian appeals to Christianity to justify his extreme solicitude for the unfit. But is it really essential to Christianity that we should do our best to give to weaklings the advantages of the strong, to the foolish those of the wise, and to the lazy those of the hard-working? I think the parables of the Foolish Virgins and of the Talents will answer this question. "Well done, thou good and faithful servant," was not spoken to the unsuccessful.

There is really nothing wrong with the spirit of Christianity, but we do not give it a wide enough application. Christianity teaches us to love our neighbours as ourselves, and the same spirit should cause us to love future generations as our own. We legislate only for the benefit of our own; but

† us remember that the future is eternal while  
present is but momentary, and then Christianity,



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reason, and patriotism will with one voice impose upon us a very sincere solicitude for the well-being of those who shall come after us, and show us that in all our attempts to relieve suffering in the present we must ever bear in mind that whatever action may result in damaging our children's children will be worse than useless.<sup>1</sup> It will be, in fact, a greater crime against humanity than any apparent indifference to suffering in the present generation.

Our love for mankind must not only embrace all nations but all generations.

<sup>1</sup> In the *Spectator's* review of the first edition of the present work occurs the following passage: "And surely it is no proof of the failure of democratic government that our political leaders should legislate to relieve immediate distress, even at the risk of making things worse for the next generation."

But if each generation is justified in making things worse for the next, for opportunist reasons, what a terrible future must lie in store for humanity!

Let us indeed pause to think whether such *humanitarianism* is real Christianity. Is this sort of thing "doing unto others as we would that they should do unto us"?

## CHAPTER III

### THE VICIOUS CIRCLE OF DISTRESS AND RELIEF

If it can be proved that *distress tends to press upon relief* it will become evident that many of our efforts to diminish suffering must be destined to bring about eventually exactly the opposite result. This I believe to be the case ; that we have, in fact, by continually extending our humanitarian schemes of relief, embarked upon a slow process of racial suicide. I shall, therefore, in the present chapter, attempt to prove the theorem enunciated above by such logical methods as I venture to think should leave little room for doubt in unbiassed minds.

It is evident that pure logic cannot appeal to the politician, the demagogue or the editor of a paper with distinct political colour, because they are committed in advance to certain theories, which, right or wrong, must be defended and propagated in order that a party may be returned to power. This is probably the reason why logical method is so little in vogue in seeking solutions to political or sociological problems; for the most successful leader, under democratic government, is undoubtedly he who is most versed in the subtle use of such sophisms as best appeal to the popular mind. It was Dr. C. W. Saleeby who said, "A politician is a man who

is always thinking of the next election—a statesman of the next generation.”<sup>1</sup> Unfortunately, democracy breeds more politicians than statesmen. Major Leonard Darwin has remarked that “by merely striving to improve the inborn qualities of future generations no benefits could be won by politicians for the voter . . . nor by us for ourselves.”<sup>2</sup>

Let us, for the present argument, define *distress* as privation caused by poverty; and *relief* as help, in whatever form, but without work, given to the distressed for the ostensible purpose of diminishing such privation. The immediate cause of distress being poverty, to find its anterior causes we shall have to consider those of poverty. These appear to be: Unemployment, sickness, vice (including idleness), large families, insufficient wages and old age. If we consider want of thrift a vice, then distress in old age must generally be due to one of the five first-named causes, actuating during the years one should have been saving. Insufficient wages is not now a common reason for distress, except in the case of large families.

Thus we may reduce to four the outstanding causes, namely unemployment, sickness, vice and large families. We shall have to look for the anterior causes of these and consider how relief, and especially National Insurance, has affected them. The three last named we have always had with us, but unemployment, as we know it to-day,

<sup>1</sup> *Spectator*, 4th July, 1925.

<sup>2</sup> Lecture at the London School of Economics, before the Eugenics Education Society.

is a comparatively rare phenomenon, and as such lends itself remarkably well to logical enquiry by the inductive and deductive methods proper to all problems of cause and effect.

What is the cause, or what are the causes, of the great increase of unemployment in recent years ?

To get at the true solution to such problems, inductive logic bids us search among the antecedents of the phenomenon regarded as an effect for those which were not present until shortly before it occurred and whose effects are not already fully known and allowed for. Having found one or more such antecedents perhaps capable of producing the phenomenon, we should then observe whether in fact the latter invariably follows them, and whether in their absence it is no longer produced. If this is so, and especially if it is found that the effect follows in proportion to the operation of the antecedent, we may justly conclude that the true cause or causes have been found. But if, in addition to this, the same results can be deduced from independently established natural laws, then the highest possible degree of certainty is attained.

When we apply this method to the problem of unemployment, we are at once obliged to reject most of the theories advanced by politicians, and even by certain economists, to explain it. An obvious antecedent occurring shortly before the great increase in unemployment was the industrial ruin of many countries consequent on the war, which prevented their producing sufficiently to barter their goods for ours. But were this the main cause of

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unemployment, it should have produced more or less the same results in all industrial ex-belligerent countries, which was not the case. Moreover, when we had put German industry on its feet, and when French, Italian and other industries began to boom, unemployment in England should at least have diminished. More especially the evacuation of the Ruhr should have been followed by greater prosperity at home, as, indeed, we were assured would be the case. The reverse took place.

So also the Socialist theory that the cause of the trouble lies in the fact that "the consumption-energy of consumers lags behind the production-energy of producers and their machines" breaks down entirely before the simplest test of pure logic, since other countries are—or were until quite lately—able to sell their surplus products. It is only we who cannot.

There are, however, three antecedents complying very nearly with all the above conditions proving causality. They are: artificial wages, limited output and the National Insurance Acts. Of these, the last named will be found to comply even more completely than the others, and, therefore, we cannot logically refuse to regard it as a principal cause, if not indeed the main cause, of the phenomenon. *After* each extension of the scope of these Acts unemployment has increased, more especially since unemployment benefit was introduced in 1918, and greatly extended in 1920—and again after its still more generous distribution under the Socialist Governments of 1924 and 1929. A tightening of the

reins by the Conservatives was followed by some decrease which continued up to the eve of the Coal Strike.

The following table will shew how the number of unemployed actually does increase with increased expenditure on "Social Reform," when different countries are compared; while the diagrams on pages 79 and 80 shew us how it has increased in England with the same antecedent phenomenon. In using the method of concomitant variations it is, of course, easy to confound cause with effect. This can be avoided by noting carefully which is the anterior phenomenon. In the case under consideration we shall find that *both* are causes and both are effects, for increased unemployment causes more liberal relief, and this again produces more unemployment. It is a vicious circle. That this is so may be verified from the fact that increase in either phenomenon is actually followed by intensification of the other. The figures in this table are only approximate, for round figures are all that are necessary to the argument.

	Italy	France	Germany	Great Britain
Annual expenditure <sup>1</sup> on "social reform" services per head of population	5s.	13s.	40s.	80s.
Number of able-bodied unemployed per 10,000 of population	—	3	225	500 [including miners.]

<sup>1</sup>November, 1926.

Since 1926 the figures have changed considerably, *but proportions are approximately maintained as above.*

But Italy has now (end of 1930) about 75 unemployed per 10,000 of population. The increase began in 1927, and was a natural and foreseen temporary result of the stabilisation of the *lira* in

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Again, excessive relief as the anterior phenomenon, and therefore cause rather than effect, is noticeable in the cases of Poplar and West Ham. In Poplar when the Socialist guardians were in power, and reckless expenditure on relief was practised, the number of persons they found they had to relieve rose from 4,493 in October 1920, to 29,329 in April 1922. Conversely, in West Ham, when the Socialist guardians were dismissed, the numbers fell from 69,965 in October 1925, to 49,390 in the same month of 1926, in spite of the coal strike and although no one in distress was left unrelieved.

There have been times in the history of England when the numbers of the workless, mostly beggars, were comparable to those of to-day; but there is no reason in logic why other causes may not, at other times, have produced like effects. Civil war and epidemics will produce them; while indiscriminate charity has always been very fruitful in the production and multiplication of a vast unemployed or unemployable class.<sup>1</sup>

that year. Since 1923 the State has contributed nothing toward unemployment benefit.

Germany reorganised and extended her system of compulsory insurance in 1927, and the result or sequence *has been greatly increased expenditure and greatly increased unemployment!*

France, apparently tiring of her position as almost the only European country with no unemployed and great commercial prosperity, has introduced National Insurance. *Since doing so the numbers of her unemployed have been multiplied by forty!* England has, of course, enormously increased her expenditure and the numbers of her unemployed.

<sup>1</sup> A Spanish friend of mine, living in Madrid, told me of the following interesting experience: Having a small shop, he told his cashier to give 25 cents a day to the poor. This was distributed among some four or five applicants, while as many again generally went away empty-handed. Seeing this, he gave

There is only one other country where conditions are similar to those in Great Britain as regards National Insurance. Germany has had compulsory health insurance ever since 1884 and unemployment insurance for a period comparable to that of its existence among ourselves. Both were completely reorganised, however, and extended in 1927. And Germany has chronic unemployment, which has become much more acute since 1927. She also is finding to her amazement and great distress that ever-increasing numbers of people stay away from work through sickness!

Italy has, of late, suffered from unemployment. She, too, has unemployment insurance, but it appears to be so carefully administered under the fascist régime that the consequent evils are kept well in hand. The State contributes nothing to the benefits—which, in that country, are real insurance benefits, not degenerating into outdoor relief labelled with a pretty name. Moreover, Mussolini has very effectively organised suitable relief work, and in this way, even after stabilising the *lira*, which was bound to cause temporary trouble, the number of unemployed has never been allowed to reach the half million in a population similar to our own. In Britain the politicians, utterly ignoring the lessons taught us by other peoples, continue wringing their orders that 50 cents should be distributed. Soon he found that instead of ten there were now about twenty applicants a day, and told his cashier to give out a peseta (100 cents). The number of beggars then became so great as to interfere with business, and he found himself obliged to revert to the original plan of 25 cents only. Not long after there were again only about ten daily applicants.



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hands and telling us it is quite impossible to organise relief work on a really large scale.

In France, as stated in a foot-note on page 62, the introduction of compulsory insurance has been *quickly followed* by the appearance of considerable unemployment, non-existent before.

In countries where there is no National Insurance, or State relief on a huge scale by any other name, there is little or no chronic unemployment, and this was true, for those countries, even during and after demobilization.

In the United States unemployment has certainly been acute of late, but it is not chronic. I have referred to this in my Foreword (page 8).

The inductive methods, then, of "agreement," "difference" and "concomitant variations" afford ample proof of the harmful effect of National Insurance and excessive relief upon unemployment.

To explain *how* the Insurance Acts aggravate unemployment—and sickness with unemployability—we must have recourse to the deductive method. First of all, we must remember that they constitute the most gigantic system of relief yet invented, while they have not reduced the expenditure upon other forms of relief, which has gone on increasing in spite of them. It is a mischievous sophism to argue that insurance benefit is not relief in the ordinary sense of the word, but the legitimate reward of thrift; for compulsory contributions are in no sense the result of thrift, and true insurance is not subscribed by those who are in no case to benefit. Since the major part <sup>of</sup> the National Insurance funds is

contributed by employers and taxpayers, and by a large number of workers who are in so little danger of losing wages through sickness or unemployment that they would never dream of contributing if not obliged to do so, the benefits are for the most part not the savings of the recipients at all, nor even of their class, but of other people whose pockets have been searched. When, therefore, the *Spectator* tells us (October 10th, 1925) :

“ The system of insurance against unemployment and all the mischances of life is one of the most hopeful signs of our time. It is hopeful because it is scientific. . .<sup>1</sup> It is rank folly at this stage to call for a march backwards . . . ”

one may well reply that it is scientific in one sense only : it is the most scientific means yet devised for ensuring national decadence, both physical and moral. The folly or wisdom of a march “ backwards ” must always depend upon where we are. If we can see a precipice straight ahead, the rank folly will be in persisting in the march “ forwards.”

Secondly, we must note that a very large percentage of the unemployed are more or less unemployable, while most of the remainder could get work if they were willing to take any honest job that would keep body and soul together till something better turned up, rather than become parasites.

<sup>1</sup> Scientific insurance is that effected against such evils as death, disablement, fire, etc., which all naturally wish to avoid. Unemployment, however, may be welcome to many on account of the rest involved and benefit received. Such insurance is therefore both unscientific and demoralising.

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There is a generally recognised law of human nature which may be thus enunciated: *All states upon which a premium is set tend to become more common.* If sickness and unemployment receive a premium a free gift of other people's money, these states will therefore tend to spread. *As long as a man has to rely upon healthy living for health, good workmanship for employment and true thrift for a rainy day, healthy living, good workmanship and thrift will be encouraged and become more common, since they bring material reward; but as soon as material reward is to be gained with less effort in neglecting health and work and thrift, such negligence tends to increase.*

The argument may be reduced to a single syllogism thus: All states depending even partially upon the mind, tend, when a premium is set upon them, to become more common; sickness and unemployment are states depending partly upon the mind (at least in the majority of cases) and a premium is now set upon them by National Insurance; therefore sickness and unemployment tend to become more common. If we deny the major premise we deny human nature, or assert that all men approach moral perfection. If we deny the minor premise we are up against the psychologists and the medical profession. If we grant both premises we must grant the conclusion.

But the most obvious way in which National Insurance works ill—the only way most people can see—producing what we may call *the vicious circle of distress and relief*, lies in the fact that by burdening

industries with the load that this machinery of insurance has placed upon them we render it more and more difficult for them to compete in the markets of the world, and in that way we evidently increase the very evil that unemployment insurance professes to relieve.

A manufacturer wrote recently :

“ £715 is the annual cost of a licence for employing one hundred men, and it has to be paid whether a profit or loss is made. How many people realize what a handicap against employment National Insurance is? Suppose I restart a department employing a hundred men, could I make it pay with such a burden as a first cost? The £715 is made up as follows :

“ Health Insurance 1s. 6d. Unemployment Insurance 1s. 3d. = 2s. 9d. per week.

“ Multiply by 52 weeks, we get £7 3s. per annum.

“ Multiply this by 100 men, we get the £715 per annum.

“ When I first mentioned this to my partner he pointed out that the worker had to pay his share which amounts to £346 13s. 4d., leaving the employer only £368 6s. 8d. to pay. In reply I pointed out to him that the employer had to give the worker the money to pay his share, so that the firm paid the whole £715. This closed the discussion.”

We can verify our conclusions by actual figures,

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noting the number of insured persons unemployed<sup>1</sup> and those in receipt of medical aid, which latter had risen already in 1920 to 50 per cent. per annum. It is now higher.

We now<sup>2</sup> have the returns with regard to National Health Insurance for 1925. In that year, as stated in the Seventh Annual Report of the Ministry of Health, the total number of insurance prescriptions dispensed by chemists was about 47,266,000,<sup>3</sup> an increase of 14 per cent. on the number in the previous year, which, in its turn, showed an increase of 15 per cent. on that for 1923.

The same report shews us that the total benefits granted in 1924 amounted to £23,005,000,<sup>4</sup>—about double what it was in the first year of National Insurance, and an increase of nearly one and a half million on the previous year. We find, in fact, that whatever figures we look at,—whether those of persons benefited, prescriptions dispensed, or money spent,—everywhere there is a tendency to steady increase. Now and again the figures go down a little, only to rise higher than ever within a short time—especially since the war.

We thus find in regard to both unemployment and sickness, as aggravated by National Insurance, not only that the effects observed are a result of natural law, but that actual facts are in full accord with the

<sup>1</sup> See pages 79 and 80.

<sup>2</sup> This was written in 1927. For the latest available figures see the following notes, which further confirm and emphasize all statements made here with regard to continual increases:

<sup>3</sup> In 1928 it was 51,988,000.

<sup>4</sup> In 1928 it was £27,223,000.

conclusions arrived at by inductive and deductive logic. This being so, those conclusions are definitely proved.

It is not, of course, suggested that relief, much less National Insurance, is the sole cause of distress ; or that there is exact correlation between the one thing and the other. In view of the multitude of factors which complicate the issue, it would obviously be absurd to expect this. But we have, I think, succeeded in proving causality.

The foregoing accounts for the Insurance Acts having a detrimental effect here and now ; but for anticipating the far more disastrous effects they seem destined to produce in the near future we have still stronger reasons. Their ruinous economic effects are evident—they spell national bankruptcy ; but their biological effects will be still worse. The main principle of Natural Selection itself may be thus stated : All characteristics which enable those who possess them to subsist and procreate with greater ease than their fellows tend to become more common.<sup>1</sup> *If, therefore, physical unfitness and unemployability, lack of skill or disinclination to work, are characteristics which enable their possessors to subsist and procreate with greater ease (e.g. without working), these characteristics will tend to become more common.* When Nature gives advantages to individuals, or to types, she does so with the beneficent purpose of multiplying the fit and advancing human evolution. And if we take away those advantages, wholly or in part, and hand them over to the unfit,

<sup>1</sup> Or as on page 45 *retro*.

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we are likely to succeed in multiplying not the fit but the unfit ; and we do so at our peril.

A further point of importance is the undoubted fact that the " panel " system encourages the people to take drugs—to call in the doctor and go to the pharmacy for every ailment, real or imaginary. And the imaginary often becomes real. Thirty million weeks per annum are now lost to industry through this cause alone, while statistics prove that the number of prescriptions made up rises steadily, year by year, as I have just shewn. Humanity thus patched up with medicines may live longer, but not better than before, and those who are too sick to work steadily, but are kept alive with medicines, are often great begetters. The children they produce are not likely to be anything but a financial burden to the next generation.

Sir W. Arbuthnot Lane says :

“ How many people call for the financial support of their relations and of the public for reasons that are entirely due to their gross ignorance and carelessness ? Have these people, because of their ignorance, stupidity and neglect of their health, any right to bring into the world miserably degenerate specimens of humanity, when it is possible, by care and attention to diet and habits, that they can develop their physique and render themselves vigorous and healthy and fit persons to reproduce their species . . . ? ”<sup>1</sup>

<sup>1</sup> Signed article in *Daily Mail*, 23rd November, 1926.

National Insurance certainly tends to make people more careless regarding the simple laws of healthy living—less apt to take daily exercise, be temperate and keep fit, because, by making all contribute to the cost of doctoring those who neglect the laws of health, and saving the latter from the want that would otherwise follow absence from work, it puts a certain premium on ill health, or at least greatly lessens *the penalties which Nature imposed for our good.*

Moreover, by interfering with personal liberty, the panel system attacks and threatens to destroy the very fountainhead of progress—mental, moral and physical. The best must always be free to come to the top if evolutionary progress is to continue. Under this system, not only is a man denied, in part, the right of making his own insurance arrangements, but he is actually forbidden to rely on fresh air, exercise, simple nourishing food and temperance, to maintain health. It is suggested to him continually that sooner or later he must fall ill, or if he fails to do so, at any rate he shall be punished for not doing what was expected of him—foreseen by fatherly legislators—and shall be obliged, all his life, to contribute to the maintenance of those who take sick leave as regularly as was expected. Suggestion is a powerful force in the matter of health, and it is not therefore to be wondered at that ever increasing numbers of people fall sick and take medicines.

There are, moreover, many specific diseases which are increasing in a very alarming manner, most of



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them having an hereditary tendency and being, therefore, likely to increase still more in the future, under a régime of such tender solicitude for the unfit. Among these are heart disease, cancer, diseases of the nervous system, rheumatism, ulcers, diseases of the prostate, arterio-sclerosis, diabetes and insanity. <sup>1</sup>

In dealing, by deductive reasoning, with National Insurance as a cause of unemployment, I have incidentally shewn how it may be equally a cause of sickness, both now and in the coming generations. Thus, of the four outstanding causes of poverty, we have only now to consider how it, in common with all other forms of relief, affects vice, including idleness, and the existence of large families where the means of bringing them up are wanting.

Coming to the question of vice, and how it is affected by relief, there is perhaps not much need for argument. Simple observation is perhaps the method most appropriate in this case. It is a matter of common experience that charity bestowed upon the unworthy leads to abuse. The money given to tramps is usually spent largely on drink; that given to beggars has, at times, led to the systematic maiming of children, that they may the better call forth pity. In all countries where begging has been allowed to go on unchecked for a time, vice has so increased that authority has been obliged at last

<sup>1</sup>According to the Registrar General's annual returns, in 1869 (the first year with available figures) 417 persons per million of the population died of cancer, and 41 of diabetes. In 1925 (the latest year with available figures) 1,336 per million died of cancer and 112 of diabetes.

*Note to Second Edition.*—In 1929, 1,437 per million died of cancer and 142 of diabetes.

to interfere. Even when we think we are giving only to the "deserving poor," we often find that laziness, gambling, drunkenness and other forms of vice have been encouraged. *In fact, the tendency is, by relief, to convert the deserving into the undeserving,* for money easily got is easily spent. That is human nature, and it would be idle to deny that it is so.

As to Poor Law relief, or, as it is now called, "Public Assistance," it is instructive to visit such districts as West Ham the night after a distribution of the funds extorted from the ratepayers. Not only the kinemas, but the public-houses, too, are well filled, and one wonders how much of the ratepayers' money has gone to feed the children and how much has gone to feed vice.

That the dole encourages idleness and vice of every kind nobody can deny unless he shuts his eyes to proven facts. In the daily paper I came across the following:

" . . . at Glasgow 129 unemployed men were summoned for gambling, and the magistrate who tried them commented on the fact that the majority of the gamblers were 'on the dole.' The wife of one of these men complained to the Bench that her husband was 'gambling away the parish relief and she was not getting money to feed her children.' Such are the conditions in one of the Communist strongholds—public money carelessly paid away and scandalously misused by those who receive it."<sup>1</sup>

<sup>1</sup> *Daily Mail*.

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The Clerk to the Newcastle Justices told the Licensing Commission lately, on the authority of the police and the investigating officer of labour exchanges, that the increase in drunkenness was due to the large number of people now on the dole.

A magistrate at the North London Police Court, in dealing with four young men charged with stealing a car, observed: "Those boys have been manufactured into criminals by the dole."

At the Thorne Police Court, Yorkshire, recently, a man applied for an extension of time to pay a fine for gambling because his only income was the dole. For every such case which gets as far as the police courts, and so is reported, there must, of course, be hundreds that do not.

The blood of any honest Englishman must boil on reading such paragraphs as the following, and, again, for each such case reported there must be very many of which we never hear:

"Three unemployed Sheffield men occupied 24s. seats at a recent Albert Hall, London, boxing tournament. Special transport arrangements which had been made in Sheffield for the event were altered so that these and other men might sign on the same morning at the Labour Exchange."<sup>1</sup>

We are now beginning to find out another ominous fact which we might have foreseen, had we only a little more reasoning power and a little less sickly sentimentality, namely, that hundreds now marry

<sup>1</sup> *Ibid.*

on the dole, and the number will increase each year, as long as our policy continues the same. They bring up families of youngsters whose natural ambition in life is to "live on the dole like father."

The following is an extract from a letter I received from a well-known mining engineer shortly before the Coal Strike of 1926. It sheds much light not only upon the results of dole distribution but also upon the mental attitude of some of the miners towards work on the eve of the strike. Let us hope that, in spite of the relief the Government ordered should be distributed to them during the stoppage, the fact that they gained nothing but a long holiday at the public expense will discourage repetition of the same tactics. Here is the letter—

" . . . told me how he was wanting men to work on the surface of the great new colliery and underground. Men from the Labour Bureau were sent to him, but they all of them either declined to work or gave it up after a day or two's trial. In one case they said to the manager that they could not be expected to work for 2s. a day. This meant that they were getting so much a day for doing nothing, and the extra price for working was only 2s. What story they told at the Labour Bureau I don't know. That was for men working on the surface. The men who were sent to work in the pit never came to the pit at all; that pit is still short of men. Another man told me he was an ironfounder and that he was short of men and went to the Labour Bureau. They introduced

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him to a number of ironfounders who were experienced in that kind of work. He offered them employment, and they came to him, but they began making excuses for leaving, and very soon they all went away . . ."

and so on . . . But what is the need to quote such cases here? The papers are full of them day by day.

Nowadays most people seem afraid of "insulting" the "working classes" by even suggesting that they may possibly be subject to ordinary human failings. The other day, in the French Parliament, M. Blum told the responsible Minister, who had dared to insinuate that too generous a dole might tend to encourage idleness, that he had "grossly insulted the French workman." This modern adulation of the masses is sickening, and the *fear of plain speaking* which encourages it is truly contemptible. It is in itself one more proof of moral degeneracy in our times.

Lastly, we have to see how relief affects large families. As already mentioned, it is a notorious fact that the birth-rate is highest among the unsegregated indigent classes. The law at present allows an extra amount, both in doles and in poor relief, for each child produced by the workless. *The workers enjoy no such privilege.* Note this fact carefully. What must be the inevitable result? Unemployability being largely due to hereditary defects, moral, mental or physical, it is evident that, under such a system, unemployability must in the long run increase. But not only in the long run, for

there is direct incitement, here and now, for the lazy and the shiftless to breed plentifully. If the amount allowed for each child is not more than enough, perhaps not even sufficient, to feed and clothe it well, does anybody suppose that the whole amount is invariably spent on the child? Is it likely that such shiftless individuals as largely make up the ranks of the unemployable, if not of the unemployed as a whole, will ever seriously endeavour to limit their families as long as such a system prevails? Dr. Shruballs, Senior Medical Officer to the London County Council, tells us that in a number of families where one or more of the children were idiots or imbeciles the average number of pregnancies of the mothers was six; where the children attended schools for the mentally defective it was 5.3, while among the mothers of scholarship holders it was 4.8<sup>1</sup>. We rely solely on the higher death rate among defective children to prevent their eventually overrunning the country, yet strenuous efforts on the part of humanitarians are directed toward reducing that death rate. Dr. Tredgold gives more alarming figures. He says: "I have pointed out over and over again that whilst the average number born in a family throughout the whole community is four, the average in these degenerate stocks is seven, and there is not the slightest doubt that a very large proportion of this progeny will go to swell the ranks of the socially inefficient." In which direction must the granting of an extra sum for each child produced by these people tend? True, all recipients are not degene-

<sup>1</sup> *Mental Welfare*, Vol. 6, No. 1, p. 17.

rates, but many are ; so the tendency to increase their numbers exists.

This brings us up to a very simple piece of deductive reasoning, which may help to explain the extraordinary fertility observed among the indigent and the degenerate. The Malthusian law is not universally recognised, but it is certainly believed to-day to have a firm basis in fact by most economists and by many of those who defend "humanitarian" methods of relief. If we take that law as our major premise, we shall find that *since population tends to press upon the means of subsistence, when relief of any sort becomes a means of subsistence to a section of the population, that section (the distressed classes) must tend to press upon its means of subsistence, which is relief.*

Thus both inductive and deductive methods prove the truth of our theorem, as enunciated at the beginning of the present chapter.

We have seen that in unemployment, sickness and mental defect actual figures are found to confirm the conclusions to which logic has led us. The more we spend upon hospitals and asylums of every sort the more we need to spend ; the more we give in private charity the greater the number of applicants, and the more we give in Poor Law relief and doles, to whatever class the recipients may belong, the greater the number of paupers and unemployed. The confusion of cause and effect in the popular mind is exemplified by such newspaper comments as this :

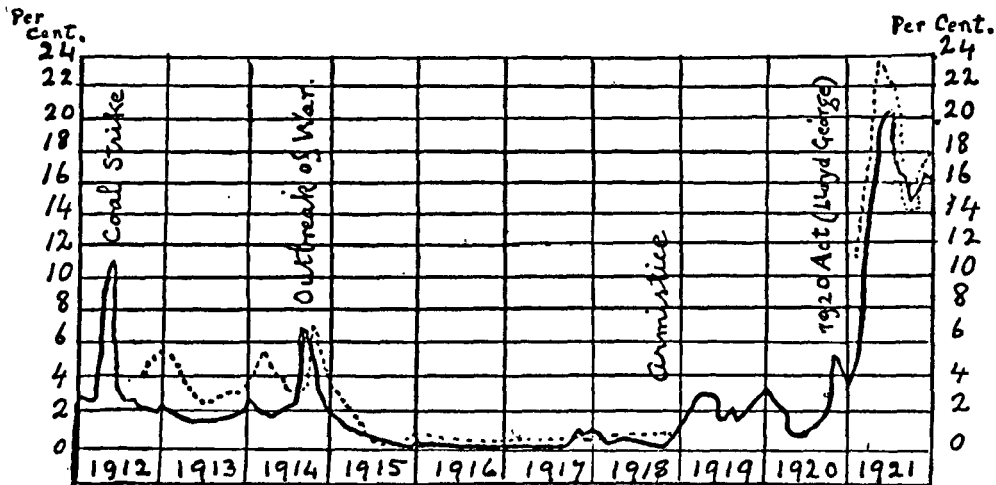
*"We are glad to note that this year so many more thousands of people have been treated in our hospitals*

DIAGRAMS SHEWING THE RISE AND FALL OF UNEMPLOYMENT,  
from 1912 to 1930, in Great Britain and Northern Ireland.

The figures in the right-hand column represent the percentage of workpeople unemployed.

*Workpeople insured against unemployment* .....

*Members of certain Trade Unions making returns (where available)* \_\_\_\_\_





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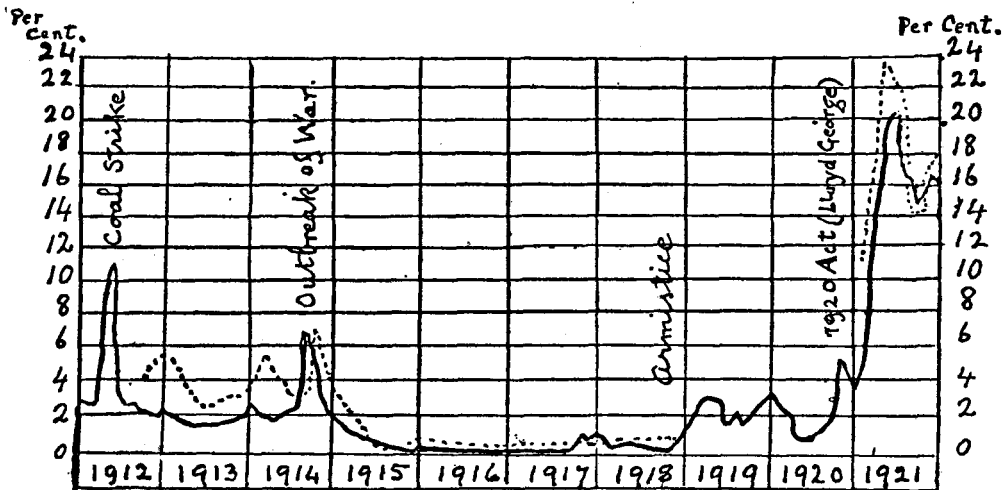
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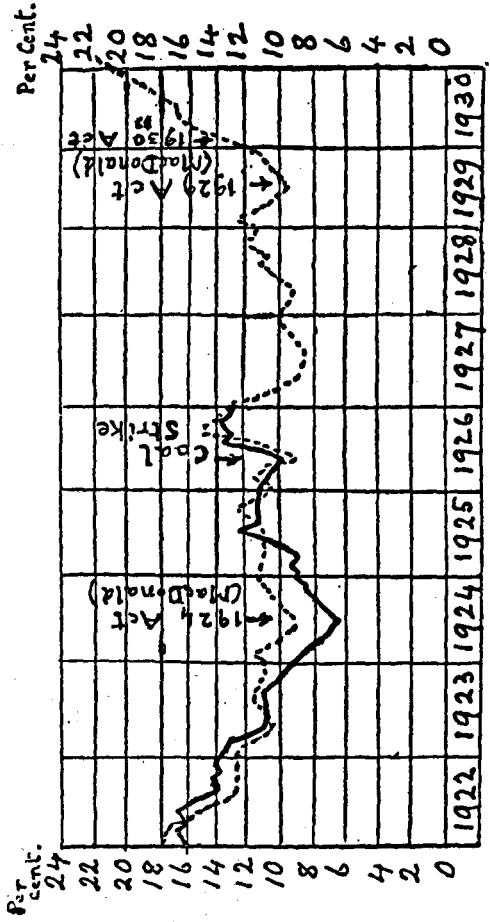
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Continued from previous page.



*than last, thus proving the increased usefulness of the institutions."* Do the people who talk thus never wonder how it is that *relief has never yet caught up with distress*, even when the sums expended have been going up (as of late years) in geometrical progression? Having actually reached the fantastic sum of £458,000,000 per annum, exclusive of private charity, we are further off than ever from our pretended goal of abolishing disease and suffering! And the cry is still *more asylums and hospitals are needed, more money must be given.*

From the accompanying diagrams we may verify that, for a year *after* the Unemployment Insurance Acts of 1920 there was a constant and prodigious increase of unemployment, and that for some time *after* the more generous distribution of doles by each Socialist Government the numbers rose again, although they had been falling just before. The increase in unemployment following the Armistice was trifling compared with these, which gives the lie direct to those who, in defence of pet theories, try to make us believe that unemployment is an inevitable part of the aftermath of war. Of course, demobilization did not immediately follow the Armistice, but in the countries where no doles were given labour was quickly and easily absorbed by industry as demobilization proceeded.

As to Poor Law relief, it is interesting to note that in 1900 there were 933,450 paupers, who cost us £13,802,378. By 1922 there were 1,702,097 paupers, in addition to old age pensioners and dole drawers, and the paupers alone cost us £45,247,010. There

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have been small decreases followed by fresh rises since 1922. The highest figures yet published are those for 1926-7, namely, £49,774,516 for paupers alone !

It was the Drage Parliamentary Return of 1925 that gave us the total assistance from rates and taxes for maintenance and treatment for which the recipient did not pay or paid only in part, in that year. It rose in England and Scotland from 63 to 458 millions per annum between 1910 and 1925. Since 1925 it has again risen enormously. Although no exact figures are available, it must now have soared well above five hundred million. The dole alone now costs the nation over £100,000,000 a year, though not all through rates and taxes.

It will be easier, perhaps, to realize what this means when we consider that, had our Chancellors been engaged in throwing golden sovereigns down the sink ever since the Armistice, at the rate of some ten or twelve every second, day and night without interruption, they would only now have succeeded in getting rid of as much money in this way as they and the Boards of Guardians actually have thrown away in unproductive relief. It is manifestly absurd to say that nothing in the way of useful work for the unemployed could possibly have been done with such a fabulous sum, instead of allowing it to produce nothing but demoralization *and increased distress.*

In answer to all the foregoing, it will be argued that humanitarianism has come to stay, and that, whatever may appear to be the case with regard to

the eventual increase of distress with increased relief, we cannot deny our Christianity nor leave the poor and the sick to starve. But unless we believe ourselves to be infallible, we shall have to recognise that *when our ethical concepts come into conflict with natural or economic law, it is our ethics which need adjustment, not natural law.*

There is nothing wrong with the true humanitarian spirit, which is simply that of pure Christianity. But our interpretation of our duty in that spirit requires adjustment as our knowledge of Nature's methods advances. When we are charitable we must remember that future generations have as strong a claim upon us as the present,—nay, even stronger, for the future is infinite while the present is but momentary. We must therefore learn to realize, however hard it may seem, that it is a lesser crime to allow a sick man to die to-day than to permit him, if his disease is hereditary, to procreate and thus perpetuate his infirmities in children yet unborn. Hereditary disease, more especially mental defect, so largely responsible for unemployment and distress, must not be relieved by the ordinary methods. It must be segregated,—a humane and economical alternative to segregation being sterilization. Until we do this, we shall, in trying to perform our Christian duty by our contemporaries, commit untold crime against their children and our children.

In combating poverty, we must consider its causes. We must offer to the unemployed whatever work can be found for them, and if they refuse it, *give them nothing*, instead of encouraging, as we do,

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an ever-growing *fastidiousness* as to the nature of the work they consider acceptable. Above all, relief work, even if partially wasteful, must be devised. Help extended to large families must be in kind, and such parents as continue to bring children into the world when subsisting on relief must suffer for it, while everything possible should be done to prevent such things. From an eugenic or racial point of view the only form of National Insurance that is not prejudicial is that against old age, and to some extent that against widowhood ; for old age, and perhaps widowhood, are states that may come to the fit no less than the unfit, so that in this case there is no penalising of fitness. Curiously enough, some newspapers have found fault with it on this very score !

True humanitarianism and true Christianity must eventually reject all measures of relief which do not consider the future welfare of our race.

Faith, Hope and Charity,—yes, these three ; and the greatest of these must for ever be Charity. But her throne must be set higher and her sway be more complete. It must embrace all humanity, whether those who are with us to-day or those who are to carry on the glorious story of Evolution through future ages.

## CHAPTER IV

### THE PAUPER VOTE

WHEN Mr. Lloyd George, in 1918, saddled England with the pauper vote, he undoubtedly dealt her the most deadly blow she ever received, and one which all his services during the Great War cannot outweigh. If, as some think, he saved England in her hours of most deadly peril, he only rescued her from a violent death to deliver her up at once to a more lingering and more inglorious fate.

In every part of the country, especially the great towns, there has now grown up a new and dangerous class, a mass of humanity dependent on the payer of rates and taxes. Before the change, a man had no right to vote, that is to take part in the government of others, unless he were at least independent and able to support himself. Now he helps to govern those who maintain him. This great host of paupers and semi-paupers is already organised in the Socialist interest *and has become a factor which can decide elections*. Its interest is solely to raise the rates so that relief may be more and more generous. Its Communist leaders use it for this purpose, for they wish to make life impossible for the workers and so provoke revolution—the sooner the better. In speaking of Communist leaders I am not confound-



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ing the terms *Communist* and *Socialist*. The Communist is the true leader, with sinister but well laid plans. The Socialist appears to lead for the time being, and his work is to prepare the way. Danton prepared the way for Robespierre, Kerenski for Lenin. And Ramsay MacDonald, ably seconded by Lloyd George and Stanley Baldwin, prepares it now for our future Communist rulers.

It is socialistic measures, wholly uneconomic and contrary to fundamental laws of Nature, which lead toward ultimate starvation, which is the environment the Communist needs in order to carry out his revolutionary plans.

The Socialist is unteachable. He still naïvely believes he can lead us to an earthly paradise through doles and pensions. The Communist knows these things lead to anarchy, and his scheme is to fish in the troubled waters of revolution; for he has nothing to lose, and may gain much at the expense of others. He cares nothing for humanity, as has been proved in France and Russia and wherever he has for a moment gained the upper hand.

And so, in ever increasing numbers, the dole givers are returned to power, and the pauper is becoming the *master* of the ratepayer, which means that the real workers are gradually sinking into slavery. This is not an exaggerated expression, for the debts incurred by certain boroughs have raised the rates as high as thirty shillings in the pound, and will take a generation to pay off.

In a speech he once made at Bermondsey, Mr.

Ben Smith waxed indignant at the proposal to abolish the pauper vote, which was at the moment to the fore, though it has unfortunately since become almost taboo. "What would happen," he cried, "if one-seventh of the people of Bermondsey (for that was the number then receiving relief) were disfranchised? Do you think you would get a Socialist majority next time?"

It is evident that the Socialists rely on the pauper vote to put and keep them in office. Yet so timid are the so-called Conservative "leaders," that, even when they enjoyed an overwhelming majority in Parliament, they *did not dare* to disfranchise those they knew to be dragging the nation to ruin while having no real claim whatever to a voice in shaping her destinies! Instead, they enfranchised millions of girls, for which they had no mandate whatever, just because, forsooth, Mr. Baldwin said he had once promised somebody that he would do so. What right has a political leader to betray the confidence of his supporters—to say nothing of the vital interests of the nation—because of a promise once made privately to somebody?

Not only in the matter of the pauper vote and in their zeal to add yet more ignorant electors to the franchise roll did the Conservatives betray their trust. Mr. Neville Chamberlain, apparently desirous of emulating the Coalition Government in furthering Communist plans, decided that strikes should be subsidised at the expense of the ratepayers. This means that men on strike only have to refuse all settlement of their dispute for long enough, and

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they can reduce the rate-payers of their district or districts to a state of slavery. Is this just ?

The cry which seeks to justify this policy is that women and children must not be allowed to suffer, but it must be evident, by now, even to the most wilfully blind, that by these means strikes may be indefinitely prolonged, and with them, the sufferings, not only of the strikers' families, whatever such sufferings may be, but also of the strikers' victims, the remainder of the population. Under this system *strikes need never end*. The "heroic" resistance of the striker, living in idleness at the expense of the community, may last for ever. The workers must work harder than ever, while their pockets are searched and their own families may suffer, so that the non-workers may hold out. Others, too, may be forcibly thrown out of work, and their families begin to want or go on to the dole, but the strikers must at all costs be enabled to continue their resistance. Much claptrap about "heroic resistance" was uttered even by Tory Ministers in public speeches during the Coal Strike, for votes are only to be had by adulation, and, after all, they must have an eye to future needs. When will Englishmen again have the courage to call a spade a spade ? *THE HERO IS THE WORKER, NOT THE STRIKER*, especially when the latter no longer need fear starvation.

The new Socialist councils, elected largely by the pauper vote, are a danger to the State in more ways than one. It is not only that through them, elected as they are by means of the bribery of extravagant

relief that they may put up the goods of the minority to auction, the ratepayer tends to become the slave of the parasites, but also there is grave and increasing danger of their undermining that security of life and property that has been the Englishman's boast for ages. They dominate the municipal services and can exercise a great deal of influence over the police force. The strange and ominous phenomenon was seen during the coal strike of a chief constable being called upon by the county council to resign his post for the offence of prohibiting a dangerous procession of strikers.<sup>1</sup>

Since the number of paupers increases year by year, and the number of Socialist councillors too,<sup>2</sup> it is evident that the worker's chains must become heavier and heavier as time goes on. Another victory for the Socialists at the next General Election would precipitate the débacle. I say a Socialist victory, not a Labour victory, because I have always thought the latter word a misnomer for the party that does all in its power to *penalise the workers* for the benefit of parasites.

I can only think of one course that will be open to British taxpayers if another spendthrift Government comes into power, and that is *to combine and refuse to pay any taxes at all*. This would probably bring the vote-catchers to a sense of reality.

The patriotic voter, in these days, has only Hobson's choice before him, as far, at least, as the

<sup>1</sup> This occurred in Monmouthshire.

<sup>2</sup> In the last municipal elections there was a reaction. But can we hope that the tide has really turned?

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three old-established political parties are concerned. From the Simon Commission we learn that in certain parts of India one votes for a picture—a tree, a tiger or a flag, for instance. Here we vote for a name, such as Baldwin, MacDonald or Lloyd George. The difference is that while the Indian probably hardly realizes what may be the policy he is supporting with his vote, we in Britain know that our choice lies between Socialism, Socialism and Socialism—unless the new United Empire Party fulfils its promise of leading us elsewhere.

The Conservative programme may be fairly good, but under that party's present leadership socialistic measures have always been substituted for pre-election programmes as soon as it has come into office. So where is the use of voting for it—unless there is a change of leadership? Only as the lesser in a choice of evils. If only the Conservative leaders would believe that *they would really be much stronger as champions of truth and reality than as mere opportunists or sham socialists!*

The next Conservative Government is likely to have *the last chance in history* to save the Empire. Its responsibility before posterity will be incalculable. If it should do something effective, beginning with the abolition of the pauper vote,—then there may yet be hope for the future. If, after abolishing the pauper vote, it were to proceed to abolish the dole,<sup>1</sup> except in the case of ex-service men, in

<sup>1</sup>I am not suggesting that this could be done suddenly. "Extended" benefit would, of course, be the first abolished while no individual would be newly insured.

whose case it should go by another name, and quickly replace it altogether by sound schemes of public utility work for the unemployed; set about the demolition of slumland; reverse its late policy of subsidising strikes; effectively reduce the bureaucracy and thereby reduce taxation by at least a hundred million pounds a year; introduce Empire preference; effectively relieve agriculture; and, finally, introduce the more urgent and less controversial measures of eugenic reform—then one might once more become optimist, after all.

In watching the effects of the pauper vote and the growing tendency to make the efficient pay for the inefficient, one is reminded of a horrible superstition still surviving in many parts of the world. The only cure for tuberculosis is supposed to be the warm blood of a healthy child. Thus it often happens that children are murdered by *well meaning* persons in order that some one dear to them, in the last stages of disease, may drink the child's life-blood, as it gushes from the still palpitating body of the unhappy victim. But the sick man does not recover,—perhaps because the supply of victims for immolation proves insufficient.

So also the sick men for whose benefit Socialistic legislation would sacrifice the nation's best blood must eventually perish,—when the workers are no longer able to support the ever-increasing burdens laid upon them; when their numbers shall be so reduced by the premiums put upon idleness and incapacity that they can no longer carry on the unequal fight;—when, in short, they have been *bled white*.

## CHAPTER V

### EUGENIC REFORM

It should be said at once that the need for eugenic reform in no way depends upon where the truth lies in the controversy about degeneration. Whether we are deteriorating or not we need this reform, for it is just as desirable to progress more rapidly if we are moving slowly as it is to stop degeneration if it is going on.

Nature is seeking, through Evolution, to raise man to heights which as yet we cannot see. Indeed we can scarcely dream of them, for the ultimate goal is likely to be something transcending our present powers of understanding. The discovery of the science of eugenics has been a landmark in the history of human evolution, for it marks the precise moment at which man acquired the knowledge and the power which will enable him to cooperate with Nature in furthering his own evolutionary progress. Henceforth he may become Nature's partner, if, instead of hindering and thwarting her, he will continue to learn, and to deserve God's help and approval by helping himself. Just as the age-long processes which developed the different species of animals and plants have been first learned and understood and then speeded up a

hundred or a thousandfold by scientific farming, so the slow, erratic development of man's intellect and morals—now advancing, now receding, through the centuries—may be speeded up, and progress may become a hundred times more rapid in the future than it has been in the past. All this depends on eugenic reform. Man's evident duty is to "help Ormuzd" as the Persians taught more than three thousand years ago.

Eugenic reform consists in diminishing the progeny of the stock which is below par, and which, under existing conditions, is threatening to swamp all else, and, secondly, in increasing that of the more efficient strata of society, in order that the coming generations may be better and happier than ourselves instead of more and more miserable and degenerate.

To diminish the dangerous fertility of the unfit there are three methods: the lethal chamber, segregation and sterilization. In a pamphlet entitled *The Only Way*,<sup>1</sup> I have given my reasons for believing the last named to be the method that should be adopted in dealing with the grossly unfit, whenever practicable. Segregation is effective but expensive, and, by hiding away from sight defective individuals, prevents our realizing the enormous numbers to which they have attained, and the urgent need for action. We all know that rates and taxes are high, but few of us realize how far it is the care of our morally, mentally or physically

<sup>1</sup>*The Only Way*. The Eugenics Society, 20 Grosvenor Gardens, London, S.W.



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defective population that makes them so. But segregation of all who suffer from hereditary defect is infinitely better than *laissez faire*.<sup>1</sup> In order, however, to allow liberty where possible and to save the taxpayer from unnecessary expense, there should at least be an option of sterilization in most cases.

An absurd argument is often brought forward against the segregation or sterilization of defectives, namely, that we might thereby sometimes prevent the birth of a genius. But such fallacious reasoning bespeaks a lamentable lack of logical training and complete ignorance of the science of heredity; for, first of all, there can be no doubt that the higher the general level of intelligence the greater will be the incidence of genius, and so, for one genius we imagine we might lose it is likely many would be gained. Secondly, for immense gain in other directions it would be well worth our while to risk missing a genius or two, did that risk really exist. And thirdly, it is a fact that *never yet was a genius born of feeble-minded parents*.

The truth is that we must make up our minds either to sterilize the grossly unfit or to become shortly a definitely C3 nation—or, more probably, no nation at all!

A bill to legalize the voluntary sterilization of

<sup>1</sup> The expression *laissez faire* is, of course, here used to signify the disastrous policy of allowing the defective to breed unchecked, and socialistic legislation to produce its effects upon the quality of the race. An all-round *laissez faire* policy would not be disastrous, for it would allow Nature to work unhampered. Unfortunately we only interfere with Nature with a view to getting round such natural or economic laws as our flabby sentimentalism does not approve of.

defectives, in certain circumstances, will be presented this year in Parliament (1931), and it is of the utmost racial importance that this bill should pass into law.

To increase the fertility of the fit is more difficult. Major Darwin advocates a campaign amongst the better classes, appealing to their patriotism and sense of duty. It should be made clear to everybody who is sound of mind and body and can afford to have children and bring them up properly that it is his sacred duty to do so. But such a campaign can never be sufficient in itself. It is the duty of the Government to make it *easier* for the efficient classes to bring up large families. Unfortunately, however, *all the solicitude of our rulers up to the present has been for the less inefficient*. Every effort is made to enable them to have large families at the expense of the more valuable sections of the community.

Mr. Winston Churchill wisely increased the allowance from income-tax payments in favour of the family man ; but it is still far from sufficient to be effective. A man with an income not more than sufficient to bring up his family with a suitable education and all the advantages he may reasonably wish to give to his children should pay no income-tax whatever, for he is doing the nation an inestimable service, if he is bringing up at his own expense a number of healthy, intelligent children, and it is both unjust and unprofitable to penalize such services rendered instead of rewarding them. Moreover, all that is taken from the burden of the

family man could be added to that of the childless, whether married or single, when they refuse even to adopt children.<sup>1</sup> It is right that those who will not do their duty by the nation should be made to pay to have their share done by others.

It is characteristic of that mentality which is ruining the country and preparing the downfall of the Empire that the Joint Committee of the Labour Party and the T.U.C. should report upon the question of family allowances, recommending that these be paid entirely by the State (that is, by the tax-payer), and yet should not benefit in any way the income-tax paying classes. They should be paid from birth till the school-leaving age, when of course the child will receive automatically a pension or a dole. For calm effrontery and brazen-faced contempt for the true interests of posterity I think it would be hard to beat this Report.

The man who pays income-tax, if we except a small percentage of degenerates who have inherited undeserved wealth, and a few rascals who have obtained it by questionable means, is, generally speaking, a man who is an asset to the nation. He probably is or has been one of the workers,—generally a skilled worker with the hand or brain. It is therefore this man who should be encouraged to bring children into the world. At any rate it is practicable to offer him encouragement, and the results must be good, even if the method of selection leaves something to be desired.

<sup>1</sup> In adopting children they would be likely to choose those of eugenic value.

But there is all the difference in the world between this and the sort of family endowment advocated by the Socialists and by many Liberals, who would give to "working-class" parents an endowment at the expense of the income-tax payer. The effect of such a policy would be once again to penalize the intellectual and the efficient for the benefit of the inefficient, speeding up the birth-rate of the latter and reducing still further that of the former, thereby hastening the process of decay through a differential birth-rate which has ruined successive civilizations.

If, however, the endowment were granted only to those actually working, and the money were taken not from income-tax, but from the childless members of *the same class* as that benefited, the measure would be eugenic in its effects. Can we hope for so much wisdom under democracy?

This is a thing that could be done at once, and I hope it may be. But for a thorough policy of reform in this direction we need an official eugenic classification of the whole population. By the use of the Binet-Simon tests, and by medical examination and, so far as possible, the examination of pedigrees, police records, etc., every individual, before reaching marriageable age, should be classified, from A1 to C3. There should then be motherhood endowment for A1 families and remission of all income-tax. As to the C3, they should be either sterilized or segregated.

It has been suggested that, by the use of birth-control methods, C3 individuals might be allowed

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to marry without danger to the State. But since these methods are necessarily left in the hands of the individual himself, it is difficult to see how we could trust them. Indeed, I purposely omitted to mention so-called birth-control as a means of diminishing the fertility of the unfit, because, being of necessity voluntary, the shiftless and the degenerate will never adopt it, especially while we grant them extra cash when they produce children. The thought of physical gratification resulting from the immediate expenditure of such grants will always weigh far more with those whose fecundity we most need to reduce than any sterile counsels with regard to the duty of continence or the use of approved methods of birth-control.

For this reason, I consider the term *birth-control* a misnomer ; for it implies the idea of control in the interests of the community, whereas, as a matter of fact, it is used and will continue to be used so long as human nature is what it is at present, for purely selfish motives, and with no regard whatever, in the vast majority of cases, for the welfare of the race. It is suggested that punishment should follow the birth of a child to those receiving relief. This would certainly be much better than rewarding them with maternity grants, but it is rather like locking the stable door after the horse has been stolen, unless, indeed the punishment be sterilization.

It must always be borne in mind that those eugenic reforms will be most effective which aim at increasing the fertility of the slightly above normal, and diminishing that of the slightly below, because

these classes are much more numerous, comprising really the bulk of the population, while the eminently superior or inferior are relatively few in number. Means of encouragement should therefore be sought with reference to all A families, not only A1, and of discouragement for all C families, in regard to the procreation of children. Only the B families need, perhaps, no special consideration. If no C people ever had children, the inborn qualities of the race would improve very rapidly.

An eugenic reform which we are quite likely to have in the near future is the health certificate for marriage. Major Darwin objects to it, principally on account of the power it would place in the hands of medical men. But no eugenic reform of far-reaching effect can be carried out without this drawback, and I think that it is a clear case of choosing the lesser evil. As Major Darwin himself says, the objection that to stop marriage does not stop procreation is not valid, because it would certainly lessen the probabilities of procreation, and to prove that benefits may be small is no argument against trying to obtain them.

If the right to marry and procreate had to be established by each individual, the colossal waste of public money upon the maintenance of defectives would very soon cease; and that in itself would enable many vigorous people at present taxed to the point of not being able to rear children, to marry and multiply freely and naturally, which is what the national interest so clearly and urgently demands.

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A scheme that, so far as I am aware, has not yet been placed upon the programme of any reformer, is the founding of eugenic orphanages. By this I mean homes, where a very healthy life and a fair education would be given to children whose parents were of A1 (or simply "A") stock, but whose surviving parent or relatives were unable, or, in the case of relatives, unwilling, to give them those advantages. The institute would further undertake to start them well in life after educating them. One such orphanage would not have a very far-reaching effect, but, as a means of calling the attention of the charitable public to the need for a more long-sighted charity than that which merely aims at dragging on the existence of those whom Nature, for good reasons of her own, would have allowed to die, it might have a considerable educational effect, and there might be eventually many such homes, doing really useful work. It has always seemed to me tragic that we should spend so many millions a year on homes and "colonies" for the feeble-minded, the consumptive, and those with every conceivable hereditary defect, in order that they and their progeny may be saved for the race, and never a penny to save the fit, the children of special value to the nation, whom adverse circumstances may have condemned to degradation and want.<sup>1</sup>

<sup>1</sup> The principal aim of the eugenic orphanage should be to get hold of children whose hereditary factor is *above the average* but who are in danger of degradation through environment. These should be given a thoroughly wholesome environment, and eventually launched in life in such a way as best to ensure early and happy marriage,—not necessarily, therefore, in the

Under the Mental Deficiency Act of 1913 we are spending fabulous sums on giving to hopeless idiots every therapeutic advantage known to science. Thus Professor Berry tells us of two sisters in the Stoke Park Colony who are "speechless, useless, apathetic idiots, only capable of meaningless movements, and of making inarticulate noises and screaming fits. They have no interest in anything whatever . . . and yet they have already cost the ratepayers some £3,000 and are likely to cost as much again . . ."

Can anyone doubt whether the £6,000 these two idiot sisters are to cost the nation would not have been far better spent in such a cause as that I am pleading?

Dr. Paul Popenoe and Mr. E. S. Gosney have estimated that the cost of maintaining the mentally diseased in the United States surpasses \$150,000,000 a year.<sup>1</sup> Our own bill cannot be much less.

Mr. C. M. Kohan, secretary of the New Health Society, has written :

"In one way or another Great Britain is spending on health measures some £300,000,000 a year. There are the hospitals always full and

way of a professional career, where marriage is apt to be long delayed. Probably the best way to obtain the desired end would be to teach the children farming, later apprentice them to farmers, and finally settle upon those who should prove worthy a small holding with a cottage. If they are to help to improve our British stock in Britain, they should not, of course, be encouraged to emigrate. If all were given holdings *in the same district* this scheme might prove a beginning to the formation of eugenic colonies of infinite possibilities.

<sup>1</sup> *Sterilization for Human Betterment*—page 129.



overflowing. There are institutions for the lunatic, the hopeless, the defective, the helpless, the feckless. On mental defectives alone the country spends twice as much as it did ten years ago. It is probable that about 70 per cent. of the population is C3 . . . To *alleviate* we spend £300,000,000 each year. But how much of this vast aggregate is spent on real measures of *prevention*? A quarter, a tenth, a twentieth part? . . ."

Probably hardly a thousandth part. On sanitation we spend a relatively insignificant sum; on health education little or nothing; and on schemes such as I have suggested nothing at all. But is not prevention better than cure?

"Christian charity," as commonly understood, has for centuries been the chief factor in racial degeneration, having only lately ceded that distinction to legislation; but such charity as this, the saving of the fit, the rescue of sturdy, intelligent children of good descent, when in need of help, would tell in the opposite direction. Such charity would diminish suffering to-day *and to-morrow*, instead of trying to relieve it to-day utterly regardless of what may result to-morrow from such action. I should be very glad to hear from anybody able and willing to help forward such a movement.<sup>1</sup>

Democracy may make real eugenic reform impossible in England, through legislation, but the example

<sup>1</sup> Letters addressed to me under care of the publishers will be forwarded.

of this new charity might make people think, and draw attention to the need of asking ourselves whether any particular form of "philanthropy" will diminish suffering in the long run, or only alleviate it to-day to aggravate to-morrow. When public opinion has been made to recognise the importance of this we shall learn that it is wicked to "cure" hereditary diseases without adequate safeguards against their propagation by procreation. The reform of "charity" is perhaps even more urgent than that of legislation

## CHAPTER IV

### THE DESTINY OF MAN

WHAT has the infinite Future in store for Man? Many books have been written about what is likely to happen a hundred years hence, or two hundred or a thousand, but what is a century or a thousand years in the history of Evolution?

Before we can begin to form any reasonable idea with regard to man's future development, it is necessary to consider the past.

We are not, of course, here concerned with man's destiny as an individual. Such considerations would be foreign to the purpose of this book. It is the destiny of our Race that is affected by the survival of the unfittest.

Science no longer admits of any doubt about the fact that man is descended from the animals. This does not however mean that he is cast down from his high position "a little lower than the angels." It means that he has risen, and is rising. The lower his origin the more marvellous is his ascent seen to be. There has been no fall, but a constant rise, and as his ascent is infinite, beginning incalculable ages ago, and ending only in Eternity, his position is found to be one of far more wonderful possibilities than was ever conceived by the old theologians.

"In the long, long past we find that man was evolved from a common stock of primates with the various genera of platyrrhine and catarrhine apes. We may further trace him back to the converging pedigrees of monkeys and lemurs until their ancestry becomes undistinguishable from that of rabbits and squirrels." This was many millions of years ago, but a relatively short period compared to that which evolved the rabbits and squirrels from the original protoplasm. How much more marvellous is the mind of man than that of the ape or the squirrel! Yet the difference is much less than that which separates the squirrel from the protozoon.

It is only when we ponder over these things that we begin to understand that, "so far from degrading Humanity or putting it on a level with the animal world in general, the Darwinian theory shows us distinctly for the first time how the creating and perfection of Man is the goal towards which Nature's work has all the while been tending."<sup>1</sup>

Natural Selection worked for ages upon the development of physical variations and the organs of sense, and then there came a time when, in the ancestry of man, psychical changes began to be more useful than physical. Then through ages of ceaseless struggle, the profitable variations in this creature occurred oftener and oftener in the brain, and less often in other parts of his organism.

Another supreme moment arrived when Man became self-conscious, and began to inquire whence

<sup>1</sup> See *The Destiny of Man viewed in the Light of his Origin*, by John Fiske; Houghton, Mifflin & Co., Boston, U.S.A.

he came and whither he was going. Then came religion, and eventually science, as the results of his efforts to solve the great mysteries. And at last he has discovered Evolution, and knows that he himself is the special care of Nature, his own perfecting her chief aim, and that his destiny therefore is transcendental.<sup>1</sup> He now knows, too, how Nature works through Natural Selection. He has learned to imitate her and create new species of animals and plants, by his own efforts, and finally, he begins even to see the possibility of applying this new and wonderful knowledge to his own species, taking a hand himself and co-operating with Nature in his own evolutionary progress.

But just at this time, too, it appears that another tendency has manifested itself: that of supposing he knows more about some things than Nature herself, and in his eagerness to show that his own concepts are superior to those that have evolved him from the dust, he seems likely to throw back the onward wave of progress whose crest has just carried us so far, this half century, and leave human

<sup>1</sup> I have several times in this book spoken of Man as Nature's special care, and his development as the main purpose of Evolution. I do not wish, however, to imply that there can be no other evolution of morality, reason or beauty—or even of other things of which we do not dream—in other parts of the Universe. Probably there is; for to suppose that among so many millions of solar systems no creature exists as high or higher in the evolutionary scale than we would be presumptuous. There was some excuse for Man in the dark ages assuming this Earth to be the centre of all things, the heavenly bodies being made for the sole purpose of giving him light. There is none now for one believing that God has no children other than ourselves. It seems likely that Nature is pressing forward toward her unknown goal in many worlds.

evolution once more where it stood at the fall of each ancient civilization.

Evidently Nature will not be defeated. She will start again—it may be with the brown or yellow races, or it may be, after a pause of centuries, with the white race again. The folly of the Anglo-Saxon can only result in forcing Nature to press on elsewhere; it cannot result in turning back the tide of Evolution permanently.

Now, if Man, as he exists to-day, has been evolved, in the course of some hundreds of millions of years, from the first forms of life that existed on this planet, what ratio does his present knowledge and power bear to that of his first ancestors? And, *if the same ratio is to be even approximately maintained, what will his knowledge and power be a hundred million years hence?* Surely no man can have the assurance to place any limit whatever upon his future development in the limitless ages to come. We dare not say that anything for which we to-day can even find a name will for ever be beyond the reach of Nature's protégé,—God's heir. He may conquer Death, and eventually Time and Space.<sup>1</sup>

We must remember that now the marvellous

<sup>1</sup> Sir Oliver Lodge says in his recently published book *The Making of Man*: "Looking at the stage at which humanity has so far arrived, in the light of æons of preparation, the lowliness of human origin, and its vast, almost limitless future, we seem driven to believe that the ultimate destiny of man as a race will be something extraordinarily magnificent."

In my own book, *The Mystery of Existence*, I had already expressed (p. 111) the same belief, in very similar words (First edition, 1909).

forces of Evolution appear to be concentrated upon the grey matter of the human brain, that is, upon the psychical development of man. What, then, is seen logically to be the outcome of a never-ending increase of knowledge and power? The forces of Nature are, by her consent, being harnessed one by one to the use of man, and yet we are at present but at the beginning of this process.

If it be objected that this Earth must one day be too cold for life, one may point out that, cosmically speaking, *a single moment has taken us from the first discovery by man of the art of making fire to our present knowledge of Nature and her secrets.* This fact is significant, for before this Earth cools æons must pass. In that time we may conquer Space.

Whither does it all tend?

A never-ceasing increase of knowledge and power evidently can have but one goal, and that is the infinite, unattainable, but ever approaching goal of godhead. Man's destiny, therefore, is godhead; but perfect godhead, being infinite, is, in accordance with the nature of things infinite, a goal to which he must always tend but never attain.

For these reasons, I believe Man's destiny to be greater than ever yet was suggested by any school of philosophy. He is a god in embryo—a god who has now arrived at a certain very elementary stage in the process of his formation. As he progresses he will understand more and more of Nature,—there is nothing else for him to understand, for Nature is everything; more and more of the universal knowledge of the World-Spirit or God, of which

he forms a part, will rise above the surface of his individual consciousness.

Evolution is the process of transition from an incoherent, indefinite and homogeneous state to coherence, definiteness and heterogeneity, in matter and spirit. Humanity is undergoing that process, and it is a process which, continued for ever, must give man at last complete mastery over Nature.

To-day man vainly styles himself "Lord of Nature." In the end he will really be so.<sup>1</sup>

To those who can accept this optimistic philosophy it will be evident that the science of eugenics must acquire thereby a new and intense significance. Whether there is, here and now, a period of decadence, as far as England is concerned, or whether this is not so, Eugenics should be studied and eugenic reform be carried out as the one means vouchsafed to us by Nature for speeding up our own evolutionary progress.

"Man stands to-day at the parting of the ways, with the choice of controlling his own destiny or of being tossed about until the end of time by the blind forces of the environment in which he finds himself."<sup>2</sup>

The further science progresses the greater the field for future investigation is found to be; therefore scientific research is likely to furnish an inexhaustible source of pleasure, ennoblement and power

<sup>1</sup>See my book, *The Mystery of Existence*, Grant Richards, Ltd., London, pp. 107, *et seq.*

<sup>2</sup>*Mankind at the Crossroads* (Preface). Prof. E. M. East. Charles Scribner's Sons, 1925.



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to Man throughout all time, and the new science of Eugenics is the means by which we shall be enabled to make the progress in a century that would have taken a thousand years. It is she who will guide us and carry us fast toward that wonderful future whose secrets we are just beginning to divine.

## CHAPTER VII

### PERILS AHEAD

THE optimists say that all is well with the world. But many scientists, economists and sociologists can see rocks below the surface in the seas we are crossing, and dark gathering clouds above; and while there is any doubt, it is always safer to assume them right than wrong. At least we must not act as though it had been proved there were no rocks.

There are certainly fewer optimists now, in 1931, than there were in 1927, when the first edition of the present work was published. This, I suppose, is due to the hard knocks Dame Fortune is already dealing us,—knocks which, as time goes on, are likely to get harder and harder; unless we greatly change our ways of thinking in the near future.

In the present chapter I propose to touch very lightly upon what appear to me the greater perils looming ahead; chiefly with a view to pointing out how all present one common root cause, which is the thing that most demands our attention.

Most of the dangers that threaten appear to have their origin in the over-population that results from indiscriminate procreation and the spread of that "flabby idealism" which causes us to use all the devices of modern medicine and surgery for the

saving of the physically unfit, as well as all the devices of statecraft to feed the inefficient. The classes saved are great begetters, and as the same process has been going on in all "Christian" lands, though nowhere to quite the same extent as in Merrie England, the time is now coming when there is no more room without emigration.

Some European peoples have no colonies to which to emigrate, and the colonies that belong to others do not want to receive the progeny of those whom medicine, surgery, Christianity and socialistic legislation have been busy saving. Britain has colonies, but in Britain these tainted masses see no reason why they should emigrate, for they are very comfortable right here, and, moreover, even our own colonies do not hold out open arms to welcome them.

If, therefore, we could find a remedy for the procreation of the unfit, we should be in a fair way toward the removal of the menace of war, whose root cause is over-population. It is evident, too, that class war at home, which threatens to lead up to revolution and the *tyranny of the lowest*, results largely from the same causes, to which point I shall shortly return.

The menace of international war is ever present. The League of Nations has so far done much to make it less imminent, but nothing towards removing its root cause. Germany, Italy and Japan are three powerful nations which have insufficient territory to allow of expansion, but being strong and vigorous peoples with very high birth-rates, they can no more be permanently kept within fixed

boundaries than can increasing volumes of steam be retained within a hermetically sealed vessel. It is no use our preaching to them the doctrine of birth-control, and fondly imagining that in this way we can solve the problem, since they cannot see that they have the reasons for adopting it that we have for wishing they would. They look for the remedy in another direction. Mussolini has said, referring to birth-control, "We are not so stupid as that."

In 1927 Mussolini reminded the vast crowd he was addressing of their entry into the world war and demanded of them that they should always be ready to make the same sacrifice again. The enthusiastic and universal shout of "*We will*" with which this question was answered gives the lie direct to the foolish assumption of our English pacifists that all peoples are war-weary. This is the dope with which they seek to make the British people pursue the perilous policy of isolated disarmament. But, in truth, so long as any great European people can give such an answer to such a question we stand in exactly the same position with regard to peace and war as in 1914.

*Unless the League of Nations, in the near future, decides to tackle this very difficult but very urgent problem of the necessary expansion of vigorous peoples, wars of conquest must come.*

To me it seems that the only true solution to the problem lies in a classification of nations similar to that which will be made of families in the country that first adopts eugenic legislation. There is no

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reason why C3 peoples should hold and neglect vast fertile territories, as at present, while others which are A1 or A2 are confined by the *status quo* within narrow limits; and such a state of things, being contrary to Nature, cannot continue indefinitely. The attempt to make it permanent, like every other idealistic attack on Nature, can only lead to greater and greater disasters. We know that the next great war will be an immeasurably greater catastrophe than the last one.

It is greatly to be hoped that the League will survive the storms through which, from time to time, it has had to pass, not so much for what it has done or is doing, but because it provides the necessary machinery for work that will have to be done. If humanity is to be saved from the wars and the famines which threaten through over-population or the uneven distribution of population, *A1 nations will have to be given room for expansion at the expense of C3*. To make this possible without warfare, the League will have to undertake the work of classification, not arbitrarily nor in accordance with wealth or military strength, but by a fixed system of periodic tests established by common accord. An international commission would verify, on the spot, the incidence of mental defect, hereditary disease, crime and corruption, the degree of education and culture and the average physique and intelligence of the inhabitants of every country. Only to those above par could the *status quo* be guaranteed, and if the others, as a consequence, left the League, well, they would have to go. All bolstering up of

degenerate peoples is working against Nature, against Evolution, and therefore against the Deity. It is immoral to attempt it and impossible thus to achieve the League's presumable object,—the maintenance of peace.

“ America for the Americans,” and other such slogans, will have to be abandoned, for they have no true meaning. The Americans did not make America, nor did the people or the government of any country make the territories over which they arrogantly claim exclusive right of jurisdiction. God made the world and every inch of land in it, and it was presumably made for Humanity. The only right, therefore, that American peoples have to exclusive possession and jurisdiction in the New World lies in the fact that they or their ancestors seized the land. And exactly the same right would belong to any other peoples strong enough to take it from them to-day.

Patriotism, as commonly understood, is a passion fanned by each government for its own selfish ends, for they know well that this is the only way to retain power. Vulgar patriotism enables them to raise armies to defend their position against attack from their own and other peoples. True patriotism seeks to improve the inborn qualities of a race, so that it may deserve its heritage of land and power.

What is commonly called the “yellow peril” has acquired new significance of late by the interference of Russian Bolshevism in China and elsewhere. There is, of course, no doubt that the deliberately devilish policy of the Russian Com-

munists is to use eventually the whole of Asia's immense resources in population and in wealth for the furtherance of their aim—world revolution and the suppression of Civilization. Unless the Western nations can unite in face of the common peril, the result may be, in the near future, such slaughter as will pale the Great War into mere child's play, and throw back human evolution a thousand years.

The apparent indifference on every hand to the huge military preparations now going on in Russia reminds one of how things were right up to the eve of the Great War, when not one person in a hundred, in England at least, would believe there was any real danger.

One of the greatest authorities on Asiatic affairs, Maharajah Bahadur of Burdwan, warned us in 1927 that "India is the pivot of the designs of Moscow to destroy the fabric of the civilization which has made Europe what it is to-day." That statement is now more significant than ever. Yes, India is the pivot, but Europe itself will be submerged, if unprepared, and especially if divided against itself.

Against this, possibly the greatest of all the perils looming ahead of us, our only hope is in concerted action between all civilized lands. Good will among the nations of the West is becoming extremely urgent, together with such steps for the improvement of population (rather than its reduction), and emigration for all fit European peoples, as may not only reduce the likelihood of war in Western Europe, but also prepare Western peoples to hold their own. An international Police-Army and Air Force, at the

disposal of the League of Nations, would also appear indispensable, if we are not again to put our faith in "scraps of paper," or the loving kindness of Bolsheviks.

It may seem absurd to touch thus lightly upon so vast a subject as that of the dangers threatening Europe from the East. Yet in such a work as the present it is unavoidable.

I am not inclined to believe in the danger of civilization ending as the result of general starvation through overpopulation alone, for some peoples are likely to adopt eugenic safeguards in time, and these will occupy the world's arable land at the expense of the others. They will then keep population permanently within bounds by allowing only the fit to procreate.

It would seem to me that, should there be no great change of direction in the march of events within the next few years, *the only question is whether or not we in Britain end our own civilization before we are crushed from outside.* The policy of continually taking from those who have to give to those who have not, while deliberately pauperizing the latter and creating an ever-growing class of unemployables, consisting of the feeble-minded, the sick and the lazy, can only lead to the gradual extinction of capital and industry; and there is evidently a point beyond which we can go no further. There will be money left neither for doles nor for hospitals and asylums, and the vast hordes of parasites must begin to starve.

The fact that our liabilities per head of population



have risen since 1900, under the influence of "social reform," from £18 to £500 should be sufficient to prove to any but the wilfully blind that under the sway of the "new politics," if continued, bankruptcy and starvation for all *must* follow sooner or later.

This must bring revolution, and revolution often leads to the rule of the lowest. We have placed sovereign power in the hands of the ignorant, and unless we are able in time to snatch it away, the ignorant will inevitably lead us to irretrievable disaster.

Perhaps the most hopeful sign is the discredit into which—even in trade union circles—*ca' canny* seems to be falling; though perhaps in this I am too sanguine. It certainly has sunk too deep into the minds of the working classes to be easily eradicated.

*Ca' canny* is founded upon the negation of an axiom in economic science and a fallacy of reasoning. The axiom it ignores is that production creates wealth, and the fallacy of its reasoning is in the confusion of *any* with *every*. When Napoleon said that *every* soldier carried a marshal's baton in his knapsack, he was wrong. He should have said *any* soldier. And so, when the demagogue declares that *every* trade, by reducing production, can raise prices, and so raise wages and the standard of living for the workers, he is wrong. If he said *any*, provided it be only one, he might be right, so far as the workers in that particular trade were concerned. But the raising of prices all round gets us into a vicious circle, making still higher wages necessary,

if the standard of living is to be maintained, and this process ends by ruining industry.

Again, since production is the source of wealth, it is evident that the more produced, the more wealth there must be for all. If the workers do not get their fair share, they are right in combining to bring pressure to bear on their employers; but if they reduce production, they put their employers in the position of being unable to grant their demands. This is, of course, just what happened in the coal industry.

If Trade Union leaders will aim at making workmen shareholders in industry, class war and revolution may be avoided; but such is their stubbornness, their selfishness or their stupidity, that, even with the example of America before their eyes, they do not, for the most part, appear to contemplate a change of tactics.

Looking to America, the Socialist can only see that prosperity accompanies high wages, and so illogical is his mind that he cannot distinguish between cause and effect; he cannot see that only high production makes it possible to pay high wages. He cites the case of Mr. Ford, but he does not ask himself whether Mr. Ford could ever have made his workmen so prosperous on "ca' canny." Therefore he says *raise wages*, and is sure that once you have the *effect* the *cause* will tamely follow.

In speaking of the dangers that threaten us, my concern is not for the ultimate progress of humanity. I do not believe it possible that Nature will be permanently defeated in her evolutionary aims by

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Man's folly. But I do think it quite possible that the same thing may happen to-day as has so often happened before: Evolution, which now appears to favour the Anglo-Saxon race, as once it favoured the Greek, will be thrown back, and future progress will be along some other front. *Our* glorious opportunity will then be lost for ever.

It seems likely that a check to the increase of population in all countries where there is overcrowding or a near prospect thereof, would do more than anything else to remove the menace of war, while, in our own country, a check to the breeding of those below par would not only arrest the process of degeneration, but would tend to make internal trouble less likely, for by constantly reducing the number of parasites it would make living easier for all, and by raising the intellectual level of the nation it would make us less liable to commit race suicide, whether by dysgenic legislation, by weakness in the face of danger from without, or by bloody and futile revolution.

All our efforts, then, for the good of humanity should be directed toward reducing the effective fertility of the inefficient and increasing that of the efficient in our own land. As to other lands, if there is any way by which the same could be accomplished there, so much the better; but since this is problematical, to avoid the catastrophe of war we must give to efficient Western peoples that which they need and must have.

## CHAPTER VIII

### WHAT IS MORALITY ?

As morality is invoked by the opponents of eugenic reform not only to justify their solicitude for the unfit, but also their rejection of certain reforms in our customs that might tend to improve the inborn qualities of future generations, it is very important that before allowing it to play so important a part in determining our attitude in regard to such questions as affect the whole future of mankind, we should be very clear in our minds as to just *what is morality*.

Some would define morality as the carrying out of the dictates of conscience ; others say it is the performance of such acts as may best conduce to the welfare of society. Others, again, consider the Bible the ultimate criterion in all questions of right and wrong. As a matter of fact, however, what most people mean by morality is conformation to certain rules of conduct laid down by *convention*, whose origin is to be found in precepts established in former times by Church or State, often rather for the benefit of those who governed Church or State than with any sincere view to the general happiness of mankind.

Let us very briefly consider each of these points

of view. First, as regards conscience, the fact that it has led different people to such very different conclusions appears to me to make it impossible to look upon conscience as an infallible criterion. It was the conscience of many a sincere fanatic in the middle ages that told him it was right to burn heretics at the stake. The soldier's conscience to-day bids him slay his country's enemies; to some it even whispers, "Right or wrong, my country"; while to the Quaker it declares just as decidedly that all violence is wicked, even though it be in self-defence. In fact, it would seem that, if conscience be "the voice of God," the Deity must be continually contradicting himself. Moreover He can have no opinion of His own, since conscience always agrees in its dictates with the opinions, though not with the inclinations, of the individual to whom it speaks.

As to the Bible, considered as a criterion of right or wrong, only those can look upon it in this light who believe it to be in a literal sense "the Word of God." Fortunately, in our own times, this attitude is more characteristic of farmers in Tennessee than of educated Englishmen. It has been shown by innumerable writers, including a great number of clergy of different Christian denominations, that much that is in the Bible reflects the ideas peculiar to the times in which its different books were written. Such passages as "Take thy children and dash them against the stones" can be reconciled with the teachings of Christ only by fanatics who shut their eyes and ears to common sense. Indeed, it is hardly

incumbent upon me, in such a work as the present, to argue the case against a point of view that is already rarely held by any but the ignorant, to whom argument is of little value; for so many volumes of sound reasoning have already been written to the end of destroying this once almost universal conviction, that only fanatics still retain it. Suffice it to say here that it would be clearly arguing in a circle to affirm that the Bible is the word of God *because* the Bible itself says so (if it does); this can only constitute proof on the supposition that the statement was made by God Himself, which is the very point that needs proving. If, however, it is the word of God because the Church says so, then the Church must be infallible.—But *which* Church? We need go no further.

Conventional morality, founded upon precepts laid down in ancient times by Church or State, can also only be considered infallible if Church or State are infallible, for convention itself is often very foolish and is always changing. As few to-day, with the exception of such Roman Catholics as believe in papal infallibility, would admit of any such doctrine, it is evident that conventional morality cannot be looked upon as necessarily right.

It only remains therefore to examine the suggestion that morality is the performance of such acts as may best conduce to the welfare of the community. It would be difficult to quarrel with such a definition if it were not too vague. It seems to leave too much to individual judgment. For what

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acts do conduce to the public welfare? Here there is room for every policy, from that of anarchy to that of despotism. Everything becomes a mere matter of opinion.

Can there be then any positive criterion by which we may judge of the morality of any given act or policy?

There is a revelation of God's will that is open to all of us to read. It is so evident that we reject it; so universally accessible that we suspect it. Nobody dares deny that God is indeed the Author of this revelation, and yet many dare to call it immoral! Surely the presumption of man is stupendous, yet it is a fact that every religion, every philosophy, and almost every school of politics presumes to know better ethics than those of which God is the undoubted Author!

The revelation to which I refer, as the reader has probably already perceived, is Nature. Nobody denies that God is the Author of Nature, except, indeed, those who deny the existence of God. Yet many dare to accuse Nature of immorality. Her plan for propagating the species, her alleged "cruelty" and her "injustice" are notable instances of her "immorality." Yet who are we that we should presume to call any instinct *base* or any natural law *cruel*?

When I say that wherever our ethical notions come into conflict with natural law it is our ethics that need correction, not natural law,—most people will agree. But if I say that natural law exacts the elimination of the unfit as a condition to human

evolution, they will tell me that, even if this has been so in the past, we are not going to let it be so in the future, because such elimination is immoral. That is to say, we are going to correct Nature, because her methods do not come up to our standard of morality.

If, again, I say that maternal love is the purest and most beautiful thing in human nature, most people will agree. But if I say that, since God has put this beautiful instinct into the heart of every normal woman, it is right she should be free to satisfy its cravings, even when no man has offered to cohabit with her for the rest of his life,—even when she herself has no desire for such life-long cohabitation with one of the opposite sex—then these same people will hold up their hands in real or feigned disgust, and tell me that unmarried motherhood is essentially immoral in itself, therefore no argument could ever justify it. Which simply means that the Church has been telling us so for nearly two thousand years, and the Church, of course, knows more about morality than Nature, therefore more than Nature's Author.

I can think of only one thing that can make motherhood immoral,—and that because it would cause suffering. This one thing is failure to give the child all it needs: a healthy body, good food and clothing, together with a certain amount of instruction. Those who would add "legitimacy and a father's care," forget, in the first place, that *legitimacy* is whatever merely human law likes to make it; and, secondly, that millions of "legitimate"



children already exist under "Christian" law who have never known anything worthy to be called "a father's care," and that one devoted parent is infinitely better than two bad or indifferent.

Were our insistence upon the need for two parents, united for life, really due to solicitude for the welfare of the children, there would be more to be said for it. But that this is not so is evident from the fact that we allow even paupers and defectives to marry and produce children born to a miserable heritage, and to become a burden to the community.

Violent opposition is raised to unmarried motherhood, on the ground that to sanction it would involve sanctioning all sorts of promiscuous sexual intercourse. But I do not think that this is necessarily so, for public opinion could quite well sanction the one thing while continuing to condemn the other. To take Nature for our guide does not mean to reduce man to the level of the beasts; for human nature is one thing and animal nature something quite different. Man has been evolved from the beasts by Nature herself, and in the course of that evolutionary process certain mental and moral characteristics have been created. There is a natural reaction of our better selves against all excess, and against the indulgence of mere lust apart from love. The love of family life is just as much a part of man's nature as any other instinct, and nothing that would really jeopardize this truly sacred institution can be considered moral, if we take true Nature for our guide. *But beautiful family life exists in many*

*a widow's household, and but for an intolerant public opinion, it might bring joy to the heart of many a lonely spinster.*

All our instincts are purposive, including in the place of highest honour that of parenthood. Love was evolved by Nature, perhaps mainly through the agency of mate selection. Parental affection, whose highest expression is found in man, doubtless owed its growth to the fact that young animals protected by their parents survived, while those whose parents were indifferent to their fate were likely to perish. Thus it is a purely natural product. In fact, all the highest in our lives we owe directly to Nature herself.

In man, parental affection has probably been intensified by the preference of women for such men as are kind to children, and of men for gentle women. In the same way pity has been evolved, and pity is therefore a perfectly natural quality in man, and there is every reason to suppose it an attribute of God Himself. But pity must be subject to reason, another and still higher attribute evolved by Nature in man, and, this time, in man alone. We must therefore consider it natural in man to desire to avoid causing suffering to others, but such a desire must be subject to the demand of reason that we should not, in our efforts to avoid suffering to-day, perpetuate it through future generations.

The question as to just *what is natural to man*, is, of course, very difficult to answer; but I think the nearest we can get to a satisfactory answer is this: all his instincts are natural, but his reason

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demands he subject them to such control as the pursuit of Happiness for himself and others may require.

To clothe his nakedness, too, is a natural instinct in man, and though we carry our love of dress to ridiculous excess, it cannot be reasonably contended that the worshipper at Nature's shrine should return to primitive nudity. Not only is modesty a natural attribute, especially in woman, but disgust, too, is a form of suffering, and must not be inflicted on others.

I think our criterion of morality might be stated thus: What is natural is right, and Man's true nature bids him avoid causing useless suffering to others. This is, in my considered opinion, the quintessence of morality.

As a corollary, one might add that the individual should not only avoid causing pain to others, but should do all in his power to promote happiness.

Thus we might sum up the moral law in these nine words: *Learn of Nature and seek the happiness of all.*

By "useless" suffering one must understand that which is not made necessary by considerations of the general happiness of the community. Unavoidable suffering is inflicted by the punishment of criminals, and restrictions imposed upon the liberty of those suffering from contagious or hereditary diseases. No considerations of individual liberty can justify our permitting either our own or any other generation to be exposed to grave dangers. It is, in reason, every bit as wicked to

allow those suffering from venereal disease, consumption or imbecility, to become parents, as it would be to allow a small-pox patient to enter a room full of healthy children.

I may be charged with inconsistency because I have advocated sterilization which is unnatural, but condemn "birth control" exercised for selfish reasons. In a natural state, however, the grossly unfit would die early and sterilisation would be unnecessary. If we cannot allow this, we must sterilize in order to prevent future suffering.

In taking Nature as our model of morality, it is, of course, necessary always to bear in mind that Nature hardly contemplates the single life, nor the happiness of the individual. Her aim is to raise mankind. Just as man, in his labours for the perfection of any special type of animal or plant, pays little attention to the individual, so Nature in her grand evolutionary design. And Nature's duty toward man is not identical with man's duty toward his fellows; this fact must be given due weight. For this reason, perhaps, Nature has endowed us with *pity*. But while pity is, in this sense, a divine gift, we may be sure it was not given to us that we might work *against* Nature. It is a supplementary guide to human conduct, to be used where Nature's lead is not applicable, but never to thwart Nature's plans. By allowing pity to carry us to the extreme folly of substituting the survival of the unfittest for that of the fit, we entirely fail to grasp its purpose and its very nature. All such pity is false sentiment and defeats the very pur-

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pose for which it was given to us. We should not forget that Nature's Author did not endow man with pity until he had first endowed him with some measure of reason, and reason is meant to be used to govern all our acts, including those dictated by pity.

Is Nature cruel or unjust? *Her principal aim appears to be to make all her creatures happy*, for all wild things are happy. Is that cruelty or injustice? She does not protect individuals, except by giving to each the means of self-protection enjoyed by his fellows. She does not wantonly cause suffering. Some people will say that man is not cruel when he kills domestic animals to eat them, because he has caused them to come into existence for this purpose, and if they were not to serve eventually as food they would not have been brought into existence at all. Man gives the life that he takes. Yet these good people think Nature cruel because she allows wild animals to kill each other for food. In this, however, Nature is really kinder than man, for she is careful to give a life full of joy to the animal that may eventually fall prey to another, and it would appear that even in death it suffers little. Certainly it suffers no apprehension or prolonged pain, for only man is cruel enough to *hunt* a creature to death for sport. Nature's method is swift. Man draws out the agony in the chase; and, in the case of domestic animals, whose death is more rapid, he has little care for their happiness while alive. Yet it is man who presumes to call Nature cruel.

Again, Nature is particularly kind to children, for they are the happiest of all her creatures, except

where man has interfered and made it otherwise,—whether by giving them a damnable environment, or by causing the unfit to be born and to survive.

When, too, I see and appreciate the unspeakable joy experienced by a mother, in feeling baby hands pat the breast that feeds them, and reflect that this is only the highest expression of a joy abounding throughout Nature; and when I remember that it is man who is guilty of the disgusting cruelty of turning that joy into acute suffering in the case of the unmarried mother,—the ingratitude, hypocrisy and presumption of those who call Nature cruel seem to me appalling.

I come, therefore, to the conclusion that Nature is wholly beneficent and extremely kind, although she permits suffering to result from man's interference with her plan. This may be because it is the only means of gradually teaching him what is for his good, or it may be because such matters of detail as individual suffering have not in her eyes and in truth the importance they seem to us to possess. Or, again, it may be—and to this view I am more inclined—that Nature's power is finite.

Such things as the destruction of cities by earthquakes bear the stamp of accident, and I believe them to indicate defects in detail similar to such accidents as the occasional birth of defective animals, and due to the fact that Nature, though benevolent, is not infallible in detail, and that God, her Author, though immeasurably great, is not infinite in the sense that popular religion supposes.<sup>1</sup>

<sup>1</sup> See my work *The Mystery of Existence*, pp. 68 to 72, 2nd

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Human congenital defect and nearly all intense suffering are generally owing, directly or indirectly, to human interference with Nature. Occasionally, however, they may not be so. But, after all, the marvel is that there is so much order, so much design, so much happiness in Nature. These are so great that the tiny imperfections we may notice are not to be weighed against them. In a universe of a thousand million worlds even an earthquake on our tiny planet is a very little thing indeed. It can hardly be said to mar "the music of the spheres."

From this it will be gathered that I have no sympathy with the assertion that Nature is inimical to mankind, or Evolution a blind force. Evolution is merely a name for the divine method of attaining what all Nature is working for; Nature is a name for the sum total of God's creation. When, therefore, we personify Nature we can only mean God, and to say that Nature is cruel or unjust and Evolution blind, is to say that all the marvels of creation are meaningless. This is, at the very least, a tremendous piece of presumption on the part of those who say it.

But, you reply, we see injustice on every hand: the wicked flourish and the innocent suffer. Are we, however, to blame Nature for a state of things we have ourselves created by abandoning her precepts? True, man is the child of Nature; but

edition. Sir Oliver Lodge, in *Making of Man*, accounts for evil as the necessary result of man's free will, and acknowledges God is finite, since he could not avoid that result. But this leaves unexplained great natural cataclysms in which thousands are killed.

she has endowed him with the power to thwart her beneficent purposes and bring about his own undoing. This is a necessary result of his free will, without which he would be a mere automaton.

I have said I do not believe Nature infallible ; I believe God her Author to be finite in power and *striving* through Evolution. If He were absolutely omnipotent, He would have no need to strive, for the whole work of Evolution could be performed instantaneously. How far God may have intended we should be able to bring about so much friction in our own human evolution, or to what extent the fall of successive civilizations may represent temporary failures in the divine plan, I would not presume to judge. I believe, with Bergman, that Nature—or Life—is constantly pressing forward, through Evolution, but sometimes abandons one line of development, only to advance again later on a new front. Clearly, the development of power in man is one of the main purposes of Evolution, and it may be that a period in which the power for evil is in advance of knowledge and benevolent intention was inevitable.

A great controversy raging among different schools of philosophy may be summed up thus : Is Nature seeking the line of least resistance by mere forward pressure, without aim, and going whithersoever that line may take her, or is she making for a certain goal, and getting ever nearer to it along the line of least resistance ?

According to the former theory, which is the materialistic view of Evolution, Nature is a blind



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force, and may just as well lead to futilities as to anything else. According to the latter, however, there is design at the back of all things, which means there is a God.

For myself, I confess I cannot see how any reasonable person can suppose that human intelligence, as we know it, or natural beauty, or the happiness of wild things, or the orderly march of the heavenly bodies in their orbits can result from a mere blind pressure without purpose. To me it seems that no one capable of appreciating the marvellous beauty of design and colouring in wild flowers, or the awful grandeur of the heavens, studded with a million solar systems, can possibly take this view. It is not reasonable to say that such wonders can result from the continual clash of uncontrolled forces.

Joseph Addison sang of the heavenly bodies :

“ In Reason’s ear they all rejoice,  
And utter forth a glorious voice,  
For ever singing as they shine,  
‘ The Hand that made us is divine.’ ”

The other day, as I heard these beautiful lines rendered by a church choir, I watched the face of one of the choristers, a singularly beautiful child face. The boy had a lovely voice and I seemed to hear him sing

“ The Hand that made *me* is divine.”

Surely he who sees no proof of design in the serene grandeur of the Universe, none in the flawless beauty of a childish face, and none in the power of

the human ear and the human soul to drink in and be moved to rapture by wonderful music, is blind to *the most obvious fact of the universe.*

I find the evidence of order and kindness and intelligence in the universe so immeasurably greater than that of the lack of these things, that I cannot see how it can be ignored. I do not deny that horrible things happen or that chaos is sometimes found utterly inconsistent with purpose, but I find myself obliged to seek for its explanation otherwise than by denying the existence of design or of goodness. I find that explanation largely in the *finiteness* of Nature's powers, which, of course, implies that of her Author, and I am not afraid of this conclusion, because I believe in analogy, and seeing the finiteness of human power, analogy leads me to the conclusion that God's power, though incalculably greater, is likely to be finite too. And so I define evil as suffering which cannot be avoided in the course of the fulfilment of the grand plan of Evolution.

The principal objection raised against taking Nature as our teacher in matters of morality is doubtless that, in regard to procreation, her methods are often wholly opposed to those we have been taught to consider sacred. Here we are inevitably brought back to the sex problem.

Indiscriminate mating cannot be tolerated among civilized peoples. In this respect, I think, the true cause of the difficulty lies in our interpretation of the natural. Before we can attempt to judge as to whether the natural must be rejected, we must know just what is natural. What is natural to animals

is not necessarily so to man. Moreover, among animals, too, we find the utmost diversity of nature in these respects.

Is man monogamous by nature? We know that some races are polygamous, but it is generally held that most of the white races are by nature monogamous. If this is so then Nature may still be our guide, for her teaching coincides with our ethical concepts. I have, however, great doubts as to whether a wholly unbiassed student of anthropology could come to the conclusion that even Europeans are generally predisposed to the carnal knowledge of one only individual of the opposite sex. As I mentioned in my Introduction, I have lived for thirty-five years in foreign lands, and know pretty well the habits of at least the male citizens in most countries where the populations are of European origin. My experience leads me to believe that, except in Northern lands, not ten per cent. of such citizens are monogamous. The fact that in all Christian countries bigamy is made a crime cannot alter men's nature, and the result is therefore to drive his polygamous habits below the surface, and not only cause widespread clandestine adultery, but prostitution on a colossal scale. Under such circumstances can it be truly said, unless with shameless hypocrisy, that man is by nature monogamous?

I believe, therefore, that the marriage laws and customs introduced by the Christian Church are an attempt to suppress Nature, and have had, as all such attempts must have, disastrous results. When-

ever we try to suppress Nature by force we produce evils immeasurably greater than those we think to remedy.

Furthermore, you cannot make people moral by force, since the free choice between right and wrong is essential to moral behaviour. You may forcibly prevent their committing the acts you consider immoral; and this is necessary when such acts would bring suffering to others. In all other cases coercion is itself immoral, because it is itself a cause of suffering. So it is with our coercive marriage laws and conventions.

The attempt to force monogamy on man has, by creating the prostitute, also created venereal disease. By forbidding the obedience to an overmastering instinct until marriage, except through prostitution, it has made miserable the lives of millions who cannot marry. It has caused child-murder and suicide thousands of times; yet, as we *will not* see that it is our marriage laws and customs that cause these things, we suppose them inevitable, and stubbornly refuse to modify those customs or bring them a little nearer to Nature's plan,—for Nature, we say, is immoral.

The plain truth is this: To every healthy and normal individual Nature has given a very strong instinct, stronger than all others, which we call the sex instinct; and she has done so with the express and beneficent purpose of propagating the race, so that human evolution itself is wholly dependent on its function. Now, every reasonable and just man must have asked himself this question,

if he has thought about the matter at all: "How are unmarried men to exercise this perfectly normal function if unmarried girls are, by conventional morality, condemned to absolute chastity?"

In the words of Dr. Iwan Bloch, "It is only necessary to place these two facts side by side in order to expose the utter mendacity and shamelessness of the coercive marriage morality and to display the true cancer of our sexual life, the sole cause of the increasing diffusion of prostitution, of wild sexual promiscuity and of venereal diseases."<sup>1</sup>

The universal experience of mankind has shown the utter futility of preaching counsels of perfection such as those once more repeated by an Inter-departmental Committee appointed by the Ministry of Health: "The view is emphasised that the true safeguard against venereal infection is individual continence and a high standard of moral life." A man who can without hypocrisy talk this way is either below normal in his sexual instincts or above normal in will power, and it is quite useless for those who are above or below normal to lay down the law for the rest of mankind.

Moreover, *temperate* gratification of natural instinct is not vice, and therefore not immoral; so official platitudes like the above are mere canting hypocrisy, which shirks the duty of looking for the true solution to the sex problem.

Failing universal continence, outside wedlock, which it is absurd to expect, there are, apparently, only two ways of getting rid of vicious prostitution:

<sup>1</sup> *The Sexual Life of Our Times*, p. 239.

for it is probable that even a radical reform of the marriage laws would not altogether remove this, the greatest of all social evils. Either we must remove the stigma from the girl who obeys Nature and from unmarried motherhood, recognising the natural right of every healthy man and woman to procreate, *provided children be properly cared for*, or else we must reform prostitution itself in such a way that it will no longer be unhealthy or sordid. We must choose between these two, and there can be little doubt that the former is both easier and preferable.

It is a crime against Nature to cause a mother to dread the coming of her child, and a blasphemy to say that motherhood is immoral. It is the most sacred and the most beautiful thing we know. He who doubts this must either be a bachelor who has never in intimacy, since his own childhood, witnessed a mother's joy, or he must be defective on the moral side. That joy is the crowning proof of the wonderful tender kindness of Nature. The most cruel thing that man can do is to blight the sacred relationship of mother and child with a brand of shame. No mere considerations of expediency could ever justify such cruelty, even if it were, in truth, the only way to prevent sexual promiscuity. Yet man, who is himself guilty of this supreme cruelty—this diabolical injustice—presumes to call Nature cruel and unjust!

Moreover, not only women, but men, too, have a natural right to parenthood. In every *normal* human breast is implanted the parental instinct, the

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love of children and the desire for parenthood. It is the noblest attribute, whether of manhood or of womanhood. God does not wait to endow us with it till we are in a position to marry; nor does He bestow it only upon such individuals as may desire that lifelong sexual intimacy with one of the opposite sex that is, at present, involved in wedlock. Yet if its indulgence will cause suffering—if, that is, an individual is likely to pass on hereditary infirmities to his offspring, or cannot guarantee even to one child the necessaries of life, then it is immoral to indulge the parental instinct and become a parent. Otherwise it is right and natural for every human being, whether or not a priest has pronounced a blessing or a registrar recorded extravagant vows so often made only to be broken.

If in insisting on the need for two parents our preoccupation really were for the good of the children there would be something to be said for it. But that this is not the case is proved by the fact that we allow defectives, habitual paupers and criminals to bring up families (and even pay them for doing so). What sort of wholesome parental influence is it we expect from these people?

Quite lately it has become somewhat fashionable to scoff at the idea that man, or even woman (!) has any instinctive desire for children. The author of *Marriage in the Melting Pot*, for instance, calls such notions "blowsy rubbish." It evidently has not occurred to that gentleman that he may himself be *abnormal* in the fact that he never experienced what others feel. Such books, by using exaggerated

language and making false statements, defeat their own ends.

It will be gathered from this that I have no sympathy for the movement in favour of the "companionate marriage," so far as this may mean temporary marriage entered into with the express intention of preventing the advent of children. It is immoral because unnatural, and is, moreover, a deliberate attempt to thwart Nature.

As to woman's sexual instinct, it is well-known that those who are denied all satisfaction generally become nervous and irritable. They may even lose their reason. The same is true, to a lesser extent, of men. In face of such facts only the wilfully blind can continue to believe that a life of forced continence is in accordance with the divine plan. But I protest against every attempt to divorce sexual relations from their natural consequence in the birth of children, except where such consequence is undesirable from a racial or economic point of view.

To put the matter in a nutshell, what our marriage morality amounts to is this: *Our strongest instinct being the sex impulse and our noblest the parental, it is demanded that both be completely suppressed, unless a man or a woman desire perpetual carnal intimacy with a single individual of the opposite sex, can afford to indulge that desire, and will consent to be tied down to it for the rest of his life. Is that reasonable?*

To eugenicists the argument should appeal that a man who is himself in every way fit, should not, as is so often the case, be prevented from leaving healthy children, and forced to bring sickness into the



world or be childless, because his mate is sickly. Surely the interests of the race demand that he should be free to give his offspring a healthy mother without any stigma attaching to her, to him or to them.

If it should be asked : Is a man, then, justified in seducing a girl, so long as he fulfils his duties afterwards as a father ? my answer is this : Seduction can never be justified, for it implies deceit ; but true love without deception is right and natural. The criterion by which every such act should be judged is this : *Will it cause suffering ?*<sup>1</sup> If so, it is wrong ; but if it brings mutual joy, it is right, especially if a new and happy life be brought into the world thereby. In that case, and just in proportion to the care and love bestowed upon mother and child, it is the most moral act a man can perform because the most faithful to Nature,—especially his own true nature.

Let it not be supposed that I would have men adopt habits of polygamy. Far from it. I do not advocate polygamy any more than I preach monogamy. I only plead for toleration, wherever the consummation of true love involves no suffering. Let us be tolerant with all, so long as they are not wanton, even though their natures may be different from our own. This is true morality.

<sup>1</sup> Under existing conditions it would probably always cause suffering simply because of the attitude of conventional morality and the senseless stigma it imposes. But when we have removed that stigma the consummation of true love will seldom cause suffering, and should generally be, as Nature intended, the source of truest happiness.

England will not be a free country *until the marriage contract is as free as all others*. This is the only logical solution. It is not facility for divorce that is going to improve matters; for the dissolution of a contract by mutual consent should imply no scandal and very little publicity. The scandal of divorce is worse for the children than the loss of one of the parents. Needless to say, it must always be a *sine qua non* to any marriage contract that responsibility for the proper care of the children should be accepted by one party, and that in case of the death or incapacity of the one accepting it the other should be ready to take it up.

But the most characteristic, the most important point of the New Morality must be the better comprehension of our duty toward the Child of to-day and to-morrow. A perfect Child is the symbol of Evolution; he represents the highest Nature has produced up to our time—the hope of Man and of God. We must live for him; sacrifice all for him; shape our lives for his benefit; for in this we shall live for the future welfare of mankind—the goal of Evolution.

We have here, I firmly believe, all the essentials for a new religion—that of the future. Perhaps I should rather say a new and truer form of Christianity than any at present existing—one which must appeal more and more to Humanity as the ages succeed each other. Its symbolism will be child worship; its Bible, the Book of Nature; its creed, the ultimate godhead of Man as the goal of Evolution; and its life-giving ethical principle, *to labour for the good of Posterity*.

In a plebiscite recently organized by a leading daily paper, it is worthy of note that the majority of those who answered believed in a personal God, and, since they were Christians, presumably believed in the love of God for man ; but they think that Nature is indifferent to our ideals. This means they must either look upon Nature as something altogether *outside* God, who therefore is not her Author—one wonders, in that case, who is—or they believe that God keeps a part of Himself in a sort of watertight compartment, not to be influenced by the other part. He strikes ruthlessly with one hand, with no thought of pity whatsoever, and then wipes away the tears with the other.

This, I think, is not a tenable position. I think we must recognise that, since Nature and God must be one, and since Nature makes all her creatures happy (except where man interferes), and is evidently endeavouring to perfect man through Evolution, she is wholly benign. She is not indifferent to our ideals, for she herself is forming, developing, evolving them. I have already spoken of her apparent indifference to the fate of individuals, and how it seems to me this should be interpreted.

The Founder of Christianity told us to love the Lord our God with all our heart and with all our mind and with all our soul and with all our strength. But Nature is that which is visible of God ; therefore Christianity bids us love Nature with all our heart, mind, soul and strength.

The second commandment of Christ is to love our neighbours as ourselves ; and I think it follows in

reason not only that we should never wantonly cause suffering in our own generation,—*whether in the name of Morality or otherwise*—but that we are equally bound to consider those to come after us.

Thus, my creed is not at variance with Christianity, but essentially agrees with it, only demanding a truer interpretation of Christian duty.

## CHAPTER IX

### A FASCINATING SCHEME

IF Britain is to retain democratic government, with an electorate somewhere about three-quarters of her total population, carefully trained by demagogues to care for no interests but those of self or class, we may well despair of eugenic reform on a scale sufficiently extensive to save us from degeneration.

It has been seen that eugenic reform offers no immediate attractions to the selfish voter, and therefore none to the politician. However excellent the schemes devised, it is undoubtedly true that "by merely striving to improve the inborn qualities of future generations, no benefits could be won by the politician for the voter nor by us for ourselves."

In view, therefore, of what we may call the universality of innate and cultivated selfishness in the masses, it would take a campaign such as no ideal has ever yet been able to command so far to modify that selfishness as to cause the majority to place the interests of posterity before those of self or class.

Major Darwin devotes pages to the discussion of just what advice should be given to married people relatively to the number of children they should

have in the best interests of the race, apparently oblivious to the fact that such advice will seldom be sought, and if given unasked will invariably fall upon deaf ears, since people govern the size of their families, when they do so at all, in their own selfish interests, or at best in those of their own children, and no propaganda can hope to change human nature so fundamentally that henceforth self and children shall be forgotten, and only the good of the race considered,—so long, that is, as the decision in such matters continues to rest entirely with the individual himself. Only compulsion, therefore, by means of segregation or sterilization, could have any appreciable effect on the vast majority of those whose inborn qualities are below par, while it is difficult to conceive of any scheme for either persuading or compelling those above par to increase the size of their families, except direct endowment. But as such measures as segregation or sterilization of the unfit, on the one hand, and, on the other, family endowment for the fit alone, will never appeal to the mass of voters, I see no substantial hope of their ever being enacted in a democratic country.

In view of these facts, it has seemed to me that the only hope of salvation lies in another direction.

A letter in the *Spectator* of 24th April, 1926, signed by Mr. W. Gosset, contains the following paragraph, illustrating an important truth by means of a somewhat ludicrous example. Yet, in spite of its grotesque form, it is worth quoting, in order that we may examine its real significance.

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The paragraph in question is this :

“ So far is the haphazard selection of genes from being in this case an insuperable obstacle to the purposive breeding of a desired type, that a millionaire with a taste for colour could easily establish a red-headed sub-race by the simple process of supplying free housing in a privately built suburb on condition that all parents inhabiting the houses were red-headed. As black or brown-haired offspring are almost if not quite unknown when both parents have red hair, the required type would to all intents and purposes be established at once and would be maintained as long as the inhabitants of the suburb interbred.”

Scientists have agreed of late that heredity follows the same fixed laws, whether Mendelian or otherwise, in the case of human beings as in that of plants and animals. Among these latter, purposive breeding of desired types has been universally and successfully carried out, and is more widely studied and practised to-day than ever before. But in the case of our own species, though admittedly far more important than any other, haphazard breeding is the only kind considered admissible according to current ethics. The main reason for this is, of course, the impossibility of obliging individuals to marry just as the welfare of the race might seem to dictate. Now, though of course red hair is certainly not one of the hereditary characteristics making for human happiness, yet there are an infinite

number of other characteristics, some dependent on more and others on fewer hereditary "factors," that most certainly *do* make for happiness; and this being so, it is the business of ethics to look into the matter and not to dismiss it summarily.

Major Leonard Darwin, says, in his *Need for Eugenic Reform*:<sup>1</sup>

" . . . if human beings were to be temporarily mated like cattle, family life would be destroyed and children would fail to derive the noblest influence they now get from home surroundings. All such proposals are repudiated by the eugenicist, for his desire is that the moral sense of man shall be not deadened, but both stimulated and widened, so as to make all citizens really strive to promote the welfare of their neighbours, of their children, and of the generations of the distant future."

And again<sup>2</sup> " . . . the creation of new breeds of domestic animals and plants has generally been brought about, recently, at all events, either by deliberately mating together members of pedigree strains or by the crossing of different breeds. For mankind to adopt either of these plans would involve compulsory marriage, which we have already repudiated. Moreover, if human beings with remarkable pedigrees could be induced in some unobjectionable way to marry, it would yet be necessary, in order to produce great results, to keep their descendants permanently isolated, that is as a caste apart from the rest of

<sup>1</sup> p. 134,    <sup>2</sup> p. 136.



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the community; a system probably impracticable, and certainly, as I hold, productive of harmful social and political results. But here again all that need be said is that for many centuries to come the aim of the eugenist should not be to create a new breed of men, but rather to increase the numbers of the best existing types."

In the present chapter my aim will be to show that while the principal field of eugenic endeavour may continue to be "to increase the numbers of the best existing types" in the community as a whole, in spite of the apparent hopelessness of such a task, there yet *are* ways in which a better and happier race of men could be created in a comparatively short space of time, without any compulsory mating, or the establishment of an isolated caste. If I succeed in showing this, it would certainly be unreasoning prejudice alone which could object to any such attempt "on principle," for indeed what *principle* can be nobler than that of promoting human happiness?

If Mr. Gosset's millionaire were to purchase not a suburb, but a few thousand acres of rich fertile land, in a not too out of the way part of the world—in England, for instance, or in Western Europe—and were to divide up his land into holdings, offering them, rent free, not to red-headed people, but to families of high eugenic value, physical, intellectual and moral, he could undoubtedly establish, if not a sub-race, an eugenic colony of infinite possibilities.

Let us suppose that one or more capitalists should attempt this, making contracts with the heads of the families chosen, by which they should retain the land rent free so long as they occupied it personally, married their sons and daughters into other families on the Settlement, or into outside families approved by a council of management or other authority chosen for the purpose, developed no hereditary disease nor symptoms of racial poison . . . and behaved generally in a manner not incompatible with the aims and objects of the Settlement.

These conditions concerning marriage could not be called compulsory mating, because, in the first place, in nine cases out of ten, with numbers of beautiful, intelligent girls around him, a young man would not feel greatly tempted to seek a mate elsewhere ; while, if he did, either his choice would meet with the necessary approval, or, if the worst came to the worst, he would be quite at liberty to give up his claim to live rent free, and marry as he pleased, leaving the Settlement.

Nor would such a colony create a caste, for, by remaining together in one locality, which might be extended as occasion arose, its members would be no more a caste than are, at present, the Welsh people, or Manxmen or Highlanders.

Before discussing the possibilities of such a Settlement let me say at once that, in spite of what I have written in the preceding chapter, I would emphatically repudiate any suggestion for radical modification of marriage laws and customs, at any

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rate for some time to come, in order not to lose the chance of attracting many excellent families to it, who would be highly suspicious of any such propaganda. If ultimately such modifications were decided upon by the settlers themselves, that would be a matter for their own judgment and experience. They certainly should not, at the beginning, form any part of the scheme. The only change of this sort I would plead for would be Christian charity in the attitude adopted toward the unmarried mother, when nothing but the absence of a marriage license made motherhood appear undesirable. I would plead for the recognition of the principle that *motherhood sanctifies*; the principal, that is, that the birth of a normal child signifies God's forgiveness— if there is anything to forgive—therefore ours too.

I would suggest that, in the matter of toleration *sudden* changes are undesirable; that the Settlement should go slowly, calling a halt every now and then, to see what has so far resulted, and just how far toleration may go without really losing what is good in family life.

The main difficulties of the scheme would be, of course, first, the raising of funds to finance it; secondly, offering sufficient inducement to the right sort of families to ensure their coming in large enough numbers to make the scheme a permanent success; and thirdly, the exclusion of all undesirable elements. These points we will presently refer to again.

A necessary preliminary, which, however, need not offer insuperable difficulties, would be the

fixing of "eugenic values" for the purpose of determining whether any given family or individual were a desirable acquisition for the Settlement or not. There exists the widest difference of opinion, not only amongst eugenists but among all classes of thinking people, as to what characteristics physical, moral and intellectual are of greatest value to humanity; while amongst experts in genetics there is also great difference of opinion as to how far each characteristic is hereditary and how far it depends upon factors that could be recognised and controlled with comparative ease. But without going into unnecessary details or resolving nice points of difference that in no way alter general conclusions, all the necessary decisions could be taken for ensuring a general uplifting of the type of humanity, and, above all, the elimination of such undoubted defects as feeble-mindedness, the hereditary propensity to crime, epilepsy, liability to consumption and other scourges, as well as that of all racial poisons like syphilis and alcohol.

Another not insuperable difficulty would be the method of government of the Settlement, when established; and to this I shall devote a part of the last chapter of this volume.

Touching eugenic values, although in this most eugenists may disagree with me, I am a strong believer in Juvenal's great maxim *mens sana in corpore sano*: not, of course, that it is always applicable to particular cases, but that, in racial matters, it is a very safe rule. Even *quam pulchra facies tam pulchra mens* will be found true in the

long run, when considering races or sub-races, and it is far oftener true than untrue with regard to individuals, for a noble type of features generally accompanies a noble character. The fact that human beauty has evidently been one of Nature's chief cares in evolutionary progress (compare a beautiful Nordic or Mediterranean woman with the female ape or negress) has not been accorded sufficient importance in the writings of most eugenicists and evolutionists. I shall return to this point in another chapter. It should be noted, too, that most of the well-favoured races of the world inhabit beautiful countries, which suggests that lovely scenery tends to develop human beauty; and as these same races are amongst the morally highest and the most intellectual, we see that beauty has probably a causal connexion of one kind or another with all evolutionary progress.

My own belief is that Nature pushes forward Evolution wherever, as Bergson says, she is best able to win through the resistance of matter; and while many lines of advance are eventually abandoned, there are points where she forges ahead, not in one feature alone but all—the moral, the physical and the intellectual,—progress in any one of these lines tending to favour it in the others. There is great danger at present that our own race, the British, may be added to the number of those evolutionary advances which Nature has been forced to abandon, for both biology and human history afford many instances of progress arrested and turned back. In the case of man, it is generally

his own folly that has thwarted Nature's plans, and obliged her to try again in fresh uncultivated fields. Her difficulty seems to be to pass that point in the evolution of her protégé when his power enables him to begin to thwart her schemes for his perfection before his intelligence is sufficient to prevent his doing so.

The best illustration history affords us of the sound mind in the sound and beautiful body is that of ancient Greece, where, for a few centuries, man actually co-operated with Nature in the improvement of his species. This is the probable explanation of that splendour in art, science, philosophy and physical excellence which distinguishes the age of Pericles above every other in the world's history.

No people ever appreciated either human beauty or human strength and agility as the Greeks did, and no people, in the world's history, has, consciously or unconsciously, practised eugenics to the extent they did. In fact eugenics is rather a revival of Greek thought and ethics in our own time than a new science. If Reason is the distinguishing and the highest characteristic of man, and its development the chief end of Evolution, we may say that Nature advanced further towards her goal, for one brief moment, at that time and place, than ever since, for there never has been so clear a thinker as Aristotle. That this should coincide with the appearance of the greatest of all sculptors—Aristotle being the greatest expert thinker and Phidias the greatest understander of human beauty—gives room for thought ; especially when we reflect that,

although the whole population of ancient Greece did not exceed in numbers that of a moderate-sized modern town, she produced men in every branch of science and art whose genius has dazzled posterity by their achievements. Is all this coincidence, or does it indicate a very close connexion, in heredity, between the physical and the mental? Shall we not be justified in saying that the secret of Hellas' undying glory is to be found in the fact that her different states made true physical culture the basis of their policy—educational, social and political?

But when internal strife became too frequent to be eugenic in its effects, and a country already depopulated as far as her best elements were concerned fell an easy prey to foreign aggression, the most brilliant evolutionary advance that Nature ever accomplished was arrested and turned back.

To-day some good examples of well-favoured, morally sound and intelligent peoples inhabiting beautiful lands, are those of the British, in parts where degeneration has not yet set in, the Scandinavians, the Finns, the Swiss, the Italians of the Alpine and Lake districts, the Spanish and Portuguese peasantry of the Miño valley, the Catalonians of the Pyrenees and the *Costa Brava*, the Andalusians of the Sierras, the Caucasians and the inhabitants of many Mediterranean islands.

The undegenerated Englishman, I believe, has no moral or intellectual superior among the world's peoples, though perhaps he is a trifle more inclined toward hypocrisy, intolerance and obstinacy than

most progressive races ; but physically, though amongst the best, he has some notable defects, and for this reason the crossing of English with Mediterranean blood has often had excellent results. The physical defects to which I refer are, firstly, the relative ungainliness of a large proportion of women, especially those of the middle classes after passing the age of thirty, a defect we share with the Germans and most Northern peoples. Nobody who has travelled in Latin countries can have failed to notice the superior bodily grace of the women of Mediterranean races, both in form and in movement. The large feet, masculine stride and flat or angular form, unfortunately so typical of the English woman, cannot compare for beauty with the graceful being that is man's companion on the Mediterranean shores. The Mediterranean woman, when not too stout, retains her graceful figure long after her features have lost their charm. I hasten to recognise there are many, many exceptions, both among Anglo-Saxons and Latins ; but I am dealing here exclusively with the average type. There are many physically perfect women in England, principally in aristocratic families and among the country people of such beautiful districts as the West Country, Derbyshire and the Lakes.

Another defect is in the eyesight, especially of town-dwellers. Here again we share this defect with our cousins the Germans. It is true one sees more blind beggars in Spain than in any other country of Europe, but this is due to the fact that they are allowed to beg alms in the streets, instead of



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being housed in asylums, and also in part to the ignorance that leads to many children becoming blind at birth for want of proper care. The use of spectacles, especially among children, is far rarer in Latin countries than in Germanic, and it is very seldom Mediterranean children need these unbecoming aids to vision.

But perhaps the greatest physical defect of the British is in the teeth. Even in the healthiest areas of the country, we have it on the authority of the Ministry of Health, as mentioned in a former chapter, that, in 1914, twenty per cent. of children leaving school suffered from defective eye-sight and sixty per cent. from serious dental caries. In Northern Spain, I have personally examined the teeth of scores of town children from the poorer districts and also many country children. Among the former I did not find serious caries in more than one mouth in twenty or thirty, while amongst the country children I found not a single case. In fact, in Catalonian country districts children almost invariably have absolutely perfect teeth, while many an old man or woman of seventy still retains a perfect set. I only speak of the countries I know; there may be other civilized lands where the same can be said, but I judge it doubtful.

Now it may be objected that I attach undue importance to so purely physical a matter as dental caries, for moral and mental defects are of infinitely greater importance. To this I reply, first, that I have already justified the importance I attach to physical characteristics; secondly, that moral and mental

defects are more common where there is distinct all-round degeneration. Here I am dealing with the generally normal population. Thirdly, defective teeth are a much more serious matter than is generally realised. How much pain, how much ill-health, and how much physical ugliness are due to bad teeth! The breath becomes offensive and the digestive and other organs seriously damaged. Even the heart itself is affected by abscesses due to caries. No defect, in fact, is more far-reaching in its effects upon other organs. Yet here in this England of ours even our children, a few years after receiving their second teeth, are already nearly all of them suffering from this grave trouble. Furthermore, it is undoubtedly hereditary. The truth is, in fact, little short of this: as a race we are in serious danger of losing our teeth altogether.<sup>1</sup>

Now, all this is preliminary to my estimate of *eugenic values*, for the purpose of judging on what basis families should be chosen for populating an eugenic settlement; and to the suggestion I shall make that it would be advisable in such a scheme to include the introduction of a few chosen families from some of the countries to which I have just referred. Mr. J. Curle has come to a similar conclusion after studying humanity in every corner of the earth.<sup>2</sup>

In estimating eugenic values, I believe, for the reasons given, that the *sine qua non* consists of

<sup>1</sup> This fact is signally confirmed by the comparison of ancient with modern skulls. See address on *The Nature of Man's Structural Imperfections*, by Sir Arthur Keith, F.R.S., before the Royal Society of Medicine, 1925.

<sup>2</sup> See *To-day and To-morrow*, p. 72.

physical excellence. All hereditary qualities, especially moral, are ultimate ends, but the principal *immediate* end should be physical. Good features, too, must not be despised, and a beautiful country must be chosen for the experiment. "A bold peasantry" is better material, generally, than town dwellers. The former are, in fact, the forbears of the latter, and possess all their best inborn qualities. They only lack education, which is not hereditary. Long before the days of eugenics, Goldsmith warned us that from the peasantry we can produce the lordling, and we have indeed produced the town populations; but from these we can never produce a peasantry.

The millionaire or group of capitalists whom we are supposing to act as founders of our Eugenic Settlement would probably appoint a committee for judging the eugenic value of intending settlers, and the following might be the method of judgment, subject, of course, to modification. Married people would be graded according to the mean of both individuals, and all their children received, if without defect; the presence, however, of congenital mental or physical defect in any child being sufficient to disqualify the whole family:

(1) Absolute exclusion of all persons any of whose parents or grandparents had at any time suffered from madness, mental defect, epilepsy, tuberculosis, cancer, or any of the less known but distinctly hereditary physical defects, such as brachydactyly, hæmophilia, etc., or had suffered from venereal disease or alcoholism.

(2) Absolute exclusion of all persons any of whose parents or grandparents had been convicted of serious crimes, or more than once of petty offences. Amongst the latter, such technical offences as excessive speed, petty smuggling, refusing to have one's children vaccinated, etc., would, of course, not be taken into consideration, when there were no moral shortcomings indicated. On the other hand, a single conviction for being drunk and disorderly might be held as ground for disqualification.

(3) Other candidates to be admitted if they should succeed in making up a total of one hundred points from the following qualifications, as here valued :

	Points
(a) Proof that no brother, sister, uncle, aunt, great-uncle or great-aunt (not less than twenty in number) had suffered from any of the infirmities mentioned above .....	15 to 30
(b) Bodily perfection, including beauty of face and form .....	30 ,, 50
(c) Bodily strength combined with agility ..	10 ,, 20
(d) Success in calling, to be judged by earnings	15 ,, 30
(e) Eminence or genius, especially in the case of writers, scientists, inventors, painters, sculptors, musicians, statesmen (not mere politicians), commanders, actors, entertainers, chess-players, etc. ....	15 ,, 50
(f) Extra good eyesight or hearing .....	10 ,, 20
(g) Perfect teeth .....	10 ,, 20
(h) The fact of seldom or never having been ill (excepting such children's diseases as measles, chicken-pox and mumps) ....	10 ,, 20
(i) A record of intellectual achievements (including degrees) .....	10 ,, 20

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	Points
(j) A record of philanthropic effort .....	10 „ 20
(k) Eminence in such games as cricket, foot- ball and tennis .....	10 „ 20
(l) Fertility .....	20 „ 30

An individual might qualify on physical excellence alone, provided he were normal in other respects, or on mental eminence if normal physically.

No doubt the above list could be improved upon—it is only meant as a suggestion.

Thus—	Points
One candidate might be an eminent engineer	25
Fairly well favoured and well built .....	30
Bodily strength and agility good .....	12
Never ill .....	20
A good record of philanthropic effort .....	20
<b>Total</b>	<b>107</b>

Another might be a farmer whose forbears and near relatives never suffered from here- ditary diseases, they being forty in number .....	30
Bodily strength and agility .....	18
Extra keen hearing .....	20
Never ill .....	20
Father of ten .....	28
<b>Total</b>	<b>116</b>

Both these would be admitted, unless they failed to comply with the *sine qua non* conditions, had defective children, or were brought down in eugenic values by their wives. If, for instance, the engineer's wife scored 95, their average would be 101,

and they would qualify, but if she only succeeded in scoring 90, both would disqualify.

From the above list of eugenic values, many moral qualities of great importance have unavoidably been left out, because not easily measured. Such qualities are: love of children, a keen sense of honour (and even a sense of humour), a kindly disposition, love of music and so forth.

The special importance given to physical beauty will be justified in a subsequent chapter.

An advertisement having been inserted in suitable places, offering freeholdings of from 10 to 100 acres to families of high eugenic merit, particulars would be forwarded to applicants, who would be invited to fill in a form giving full particulars with regard to each member of the family. If the result appeared favourable, a representative of the founders would pay them a visit, and if still of opinion that the family would be a valuable acquisition to the Settlement, the candidate would be invited to appear before a committee who would decide upon the number of "points" to be conceded.

This committee ought to consist of an expert eugenicist and two other persons, one of the three being a doctor, named by the founders.

It would obviously be advisable to get many farmers, carpenters and builders into the Settlement and representatives of such professions as schoolmasters, engineers, musicians, entertainers, and such trades as tailors, shoemakers, bakers, etc.

The question of locality remains to be considered. Should the Settlement be in England? There are

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many reasons why, if possible, it would be preferable to establish it in this country. A sense of patriotism would make every intending English settler keener on a scheme which might, in the measure of its success, help to bring about a regeneration of Anglo-Saxon blood within the confines of our own island, or save a part of our nation from the degeneration which threatens, than he could possibly be for such happy results as might be attained to benefit a foreign land, even though the colony might be largely of British extraction. For many other reasons, too, it would be far easier to get good English families to take up land in England than abroad. But, on the other hand, it might be more difficult to get the land, and, again, taxation is terribly high, and actual legislation unfavourable. There are lands where the colony would be very little interfered with by existing authority, and would therefore be freer to work out its destiny, growing in size and importance as the generations succeeded one another, until it might make itself eventually master over a great tract of country. Could this ever come to pass in England? In fact, the decision in this matter would have to rest with the actual founders.

Here I would like, however, to suggest the South Eastern Pyrenees as a possible home for the Settlement, for the following reasons: There are great tracts of sparsely populated and fertile lands, with a most healthy climate and abundant water supply. There is a sturdy native population with many of just those virtues which are needed as a complement

to British characteristics, so that the problem of the removal of existing populations would hardly occur. Some of the best traits, too, of the British character would here be reinforced, such as energy, cleanliness and honesty. The love of all Spaniards and especially the Catalonians for children and of the children for their parents, has been noticed by many travellers<sup>1</sup> and shows a kindliness which, when entirely divorced from false sentiment, is perhaps the greatest of all moral assets.

A mental and spiritual asset, too, of great value, and capable of immensely increasing happiness is the love of music. The Catalonians are musical, though perhaps less so than the Italians. It would not be difficult to attract some good stock from Northern Italy to Spain. The little Republic of Andorra would offer political advantages.

Again, there might be much to be said for the depopulated but fertile regions of southern Ireland, where land is cheap, and law and order now prevail.

Be this, however, as it may, no doubt others could suggest lands as favourable, and, as already said, the matter would be decided by the founders themselves. It would be a pity, I think, to seek too

<sup>1</sup>Mr. G. K. Chesterton, after a recent visit to Spain, said: "But in Spain there is one particularly impressive thing—the love of children for their parents, and of parents for their children. You will often see a small boy running, in his enthusiasm, almost the whole length of a street to meet his father—and father hugely enjoys it. It is one of those things that really do strike the stranger."—*The Observer*, June 6th, 1926.

Although Mr. Chesterton is an unreasoning enemy of Eugenics (see *Eugenics and Other Evils*), one is glad to note he made a very just appreciation of Spain and the Spaniards on the occasion of his recent brief sojourn there.



distant lands, for such a colony should always keep in touch with the centres of civilization. More especially it should not be too far away from England, English thought, and English blood.

Touching the three difficulties mentioned above—namely, the raising of funds, sufficient inducement to suitable families and the exclusion of undesirable elements, I will here make the following suggestions :

If whatever persons into whose hands this little volume may fall and who may be interested in the scheme will be good enough to communicate with the author, stating, first, whether they would wish to join such a settlement, and, if so, what are their qualifications ; and, secondly, without assuming any immediate obligation, whether, provided proper guarantees be offered for the right spending of the money, they would be able and willing to help to finance it, and to what extent, some idea may be formed as to the difficulties likely to be encountered under these headings. If these first steps should prove encouraging, further steps could quickly be devised, and would consist mainly in suitable propaganda and advertisement.

I would also suggest to the man of wealth who may have been impressed by the eugenic argument and feels that money given or left to a certain class of charities may, in the long run, do more harm than good, that he should consider whether either the foundation of an eugenic orphanage, or the more ambitious scheme of the eugenic colony, would not be likely to make future generations revere his name.

The idea is here, and, whether in giving during his life-time or bequeathing at his death, he would probably not find it difficult to nominate trustees capable and worthy of carrying it into effect.

On publishing the present second edition I may mention that, while, after the first appearance of this book, I received many letters—some from very eminent men—expressing sympathy with the scheme, no adequate financial support has yet been promised. The late Sir Alfred Fripp, who was greatly interested, wrote: "The only possible way round or over them [the difficulties encountered] is the catching of the tame millionaire, and that I do not know how to do!"

A well-known author expressed the fear that "a colony of perhaps eccentric people" might not fulfil one's expectations. It should, however, be pointed out that the proposed Settlement could never be so described, since efficiency and physical excellence are the *sine qua non* characteristics that would be required of candidates, the bulk of whom it is desirable should be farmers; and it can hardly be expected that people so chosen would take any active interest in eugenics or other "eccentricities." Such dangers might beset a scheme for eugenists themselves to found and constitute a colony in a sort of garden city, to which only people of healthy and intellectual stock would be admitted—as has been suggested by some correspondents—but could not possibly threaten that in which material advantages were offered to all sound families, independently of their opinions, prejudices or interests.

I think it is just in this that the superiority of my scheme over others consists.

I hope, however, that correspondence may continue, for out of it, perhaps, eventually something practicable may emerge.

With regard to the exclusion of undesirable elements from the Settlement, this difficulty would crop up, not only at the beginning, in dealing with actual tenants and leaseholders, but permanently on account of the certainty that degenerate individuals would continue to appear in different families, and family affection might make their elimination from the Settlement difficult.

As to tenants and leaseholders, probably most of these would either be suitable and willing settlers or else could be bought out without great difficulty. Such as might be obdurate would probably have to be dealt with by means of some sort of boycott. In any case, their presence in limited numbers need not affect the well-being or the aims of the colony, so long as settlers refused to intermarry with them.

The more difficult problem would be the elimination of degenerate members of families among the settlers themselves, for though no such would be admitted at the beginning, a certain number, even if very small, would certainly be born in the Settlement. This question would have to be dealt with when it arose, and the means of dealing with it would probably be the establishment of an institute for permanent segregation ; or, possibly, as with the individual who wished to marry outside the Settlement with an unsuitable mate, the case might de-

mand determination of the contract by which the property was held, that is, supposing the parents to whom the degenerate child was born refused either to sterilize or intern it, or send it, on attaining a certain age, to a different part of the country.

This sacrifice which the community would have to demand of parental affection would be fully justified by the fact that the essential aims and objects of the Settlement would be at stake. It would be no greater than at present required of many whose children are sent to asylums and industrial schools or "colonies," only the standard of sanity required in the Settlement would necessarily be higher than that at present required in England before a child can be certified as mentally deficient or taken from its parents.

What would be the possibilities of such a scheme ?

In the year 1891, when Sir Francis Galton had hardly yet invented the new science of Eugenics, and very few people had heard of it, I published a book in the form of a novel, in which this very scheme was outlined. I was then only nineteen years of age, and had read little ; I had never heard of Sir Francis Galton or eugenics, yet I find I should have very little to alter in the text were I to republish this Utopian romance to-day.<sup>1</sup> The possibilities of the scheme described in this chapter I believe to be at least what I suggested at that time, but probably much greater.

If, as I have said in another chapter, the destiny

<sup>1</sup>*The Yord of the Northmen* (Reeves & Turner, London).

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**of Man is transcendental, no limit can be set to the possible outcome of an Eugenic Settlement, if established to-day, and its foundation and development is as noble and fascinating a subject for thought as any that can be conceived.**

## CHAPTER X

### HUMAN BEAUTY

One of the most regrettable characteristics of modern civilisation I believe to be the excessive exaltation of moral over æsthetic values. This is due, not to Christianity as rightly understood, but to the baneful influence of the Christian Churches.

In *Man: An Indictment*, Ludovici has ably pointed out the disastrous effects upon the breed of men which contempt for beauty and physical excellence has brought about.

As he says, "Where moral values alone are considered in estimating human value, as they have been in Christianity, the æsthetic aspects of human beings are not only neglected, but are also frequently regarded as obstacles to 'holiness' and 'purity,' and thus tend to become eliminated."

The natural checks to degenerative mating tend to disappear in consequence of that contempt for human beauty which is taught us in the name of religion. "The taste which recoils from ugliness, deformity, physical inferiority, bodily defects, etc., and the standards which would cause healthy people to feel nausea rather than love in the presence of false teeth, glasses, impure breath, nervous debility, etc., have all been broken down."

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This is one of the great dysgenic influences of our times.

To many, therefore, it has always been a source of disappointment, since the science of Eugenics first came into being, that its leading exponents have attached so little importance to human beauty in their schemes for race improvement or in their discussions with regard to the good or evil effects of environment, measures or propaganda. The subject has been almost tabooed, and is, apparently, considered by leading eugenicists to be either too trivial for serious discussion, or else more or less immoral, and therefore best avoided by those whose chief task it still is to overcome that popular prejudice and suspicion always directed against new branches of scientific research or reform.

Yet everybody agrees it is a sign of refinement to love flowers, sunsets and other beautiful things in Nature. In Art, too, we are expected to admire the beautiful—and here we not only *may* but *must* admire human beauty as well, if we do not wish to be looked upon as barbarians. Even the nude we may admire—in Art. Man's poor, imperfect representations of the beauty God created one must admire, provided the painter has been recognised by the competent critics; but God's own handiwork, in the case of the human body, is looked upon with suspicion. We may admire it only so long as we are not too enthusiastic, and, above all, if we be men, provided our warmer admiration (not *too* warm) be reserved for the adult female face and form. Women, however, are allowed to admire both male and

female beauty, and may also go into ecstasies over children. Why they should be given more latitude in this respect than men is a mystery.

In all this the official eugenist has generally accompanied conventional severity of judgment, and has spoken and written as though man must not care too much about human beauty. Of the physical, health is by him almost exclusively considered. And yet, paradoxical as it must seem, the artistic temperament is recognised theoretically as of the highest eugenic value. This seems to me unreasonable.

In the present chapter, which is, like the rest, frankly unconventional, I wish to reason the matter out, and to show, not only that man has a perfect right to be an ardent admirer of all beauty, including both face and form of men, women and children, but also that the eugenist should put human beauty in a place of very high honour ; for there is, I submit, in the light of pure reason, no higher eugenic ideal than that of the gradual and thoughtful perfecting of the *human form divine* through the generations to come.

Our major premise for this argument must be that *man should revere, with all his heart and soul, what is recognised as the beautiful in Nature.* All will admit, in principle, that such reverence or admiration uplifts a man's soul, and that the mind of him who cannot admire what is undoubtedly beautiful must be defective, as judged by the standard of the faculties possessed by the complete and normal human being. But I would urge that not only does the contemplation of beauty uplift a man's soul, but



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that there is no higher joy in earthly existence than that provided by such contemplation. Some, although admitting the loftiness of such pleasures, will yet maintain that certain other joys are higher. The joy of doing good, the happiness of pure love, that of religion, music, and the intellectual pleasure of study and skilled work—all these may be considered by one group or another of excellent people as higher joys than those to be derived from the beauties of Nature. Perhaps I shall do better not to dispute these different points, for to some, no doubt, each of these pleasures is more really present than any other, and certainly all are lofty, but to the average human being some of them are not very real or very intense. Moreover, with regard to the pleasures of love, these are seldom entirely divorced from those of beauty, for even the purest of all love, which is surely that of the mother for her child, is largely composed of a keen appreciation of the beauty of little hands and feet, of wondering eyes and pretty lips, and a proud joy in knowing that all this is hers, and has been born of her own flesh. The joy of doing good depends largely for its effectiveness upon the beautiful things of this world, for its chief sphere is in enabling others to see and to appreciate those blessings.

It will therefore be hard to deny that the love of beauty is, if not the highest, at least one of the highest, of the joys that are common to all humanity. But what is the sublimest form of beauty in Nature? Before answering this question it will be necessary to define the word *sublime*. I take it to mean that

which awakens within us the feelings of wonder and veneration, whether our veneration be for the sublime thing itself or for the Power that created it. This feeling is undoubtedly stirred profoundly in any thinking mind by the contemplation of a perfect flower or a lovely landscape. But as a perfect human being, composed of mind and body, is certainly more marvellous than the flower or the landscape, his beauty must, by our definition, be more sublime. The physical beauty in humanity is so suggestive of, and bound up in, the spiritual, that they cannot be considered as two wholly separate things, and Man stands alone in Nature in the fact that his physical beauty suggests unseen attributes of great nobility. Doubtless this was in the mind of the biblical writer who said *God made man in His own image*. There is nothing therefore in Nature that by our definition of *sublimity*, can be considered sublimer than human beauty. Nor can reason admit that there can be parts of the human body that are base, for to call any part of the edifice vile and unlovely is surely to insult the Architect. We may or may not be capable of seeing any given beauty, but to say that because we see it not, therefore it does not exist, is presumption.

Furthermore, just as the opening bud has a fuller charm than the full-blown flower—due no doubt, to its sweet freshness and a subtle suggestion of still increasing beauty—so the child and the adolescent may be said to possess a beauty more sublime than that of the adult man or woman. That which, being apparently perfect, is nevertheless developing,

contains a peculiar charm that vanishes when completeness is attained and the suggestion of increasing beauty replaced by that of approaching decline. If therefore it be granted that the highest form of earthly joy is to be found in the contemplation of Nature's beauty, it must be added as a corollary that among such beauties that which should afford the sublimest joy to man is the face and form of perfect childhood or youth. And if the contemplation of such beauty lifts up the soul and ennobles it, then, *a fortiori*, an ardent, reverential love for human beauty is a true index to great nobility of soul, and should be cultivated and encouraged. All suspicion and opposition thereto is therefore dastardly, and can only arise from ignorance, hypocrisy, or malice.

So much for the ethics of a reverential love for human beauty ; but its bearing upon Eugenics is even more important. If the noblest physical fact on earth is human beauty, can it be a negligible quantity for the eugenist ? If beauty is so great a source of happiness, are we, in Eugenics, only to consider virtue, intelligence and bodily strength ? On the contrary, not only is there indisputably very much to be said in favour of considering beauty for its own sake, but since beauty is, to a great extent, the index of health or physical perfection, and health the index of happiness, it is certain that, in more ways than one, to breed for beauty would be to breed for happiness.

Our argument, then, in brief, is this : Since man should revere with all his heart and soul what is

recognised as the beautiful in Nature, and since the sublimest beauty in Nature is that of the human form divine, made "in God's image," then we should revere, with all the ardour of which we may be capable, the perfect human face and form. And if we should revere so highly the perfection of physical beauty in man, such perfection must certainly be a very noble aim for eugenists to pursue.

The ways and means of attaining perfection, or rendering more and more universal the inheritance of a certain degree of that physical beauty which, ideally, should be for all, would form a most fascinating branch of the study of Eugenics, and I think we should promote this study and do all in our power to further the breeding of beautiful children and the constant development of human beauty. It cannot be reasonably maintained that it is vain or sinful to hope that, one day, not only may our English women be the fairest in the world, but our men handsome and all our children bonny.

It is frequently assumed by writers on Evolution that, as regards his body, the development of Man has reached finality. I see, however, no grounds for such an assumption. Even though the power of Evolution be now concentrated on psychical progress, it does not follow that the body will never change. Nor can we argue that because we can imagine nothing more beautiful than the perfect human frame as we know it, greater beauty may not be possible.

More cogent, however, than any such speculation is the fact that beauty should be and may become

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the natural attribute of every human being, instead of, as at present, a privilege of the few.

Will it not be right therefore for eugenists, when giving advice upon suitable marriages, not only to teach us how to stamp out hereditary disease and mental or moral defects, but also how we may expect to have beautiful children? What greater happiness is possible for married men and women than to find themselves blessed with fine, handsome offspring? I think, too, that if every English child were bonny, there would indeed be very little wrong with England.

## CHAPTER XI

### GOVERNMENT

BEFORE discussing the form of government best suited to such a Settlement as that described in Chapter IX, I must here insert a few words about government in the abstract.

Since the true definition of liberty is *the power to do anything that in no way causes suffering to others* (future generations being included in the term "others"), the proper function of legislation in a free country is to determine what specific acts do cause suffering, and prevent them. The further we get away from this, in legislation, the worse we fare. When Liberalism, leaning more and more towards Socialism, began to regulate our lives by legislation that has since become oppressive, the excuse was that *laissez-faire* involved the oppression of one class by another. Under this pretext it abandoned the great principle of individual liberty that had been its main characteristic up to that time. But having once abandoned this principle, "Liberal" statesmen began to indulge in a great deal of lawmaking that interfered with the individual without having anything to do with the prevention of oppression. Thus began the new tyranny.

Under democratic government, each party, when in power, considers itself under the obligation to invent new laws, often under the pleasing name of "social reform," with a main view to adulating the mass of voters. Sir Ernest Benn's *Account Rendered* shows up vividly the amazing absurdity and wickedness of those hundreds of vexatious modern Acts which make the word *freedom* to-day a veritable mockery in our country. These enactments interfere more and more with the order of our lives, and oblige all to subscribe to the pet theories of idealists, or the latest scheme elaborated for winning the applause of the mob, cheating it into the belief that an *open sesame* has been found to the earthly paradise. Even more frequently they have their origin solely in the insatiable thirst of our bureaucrats for power at the community's expense.

Trade unions, too, add ever to the number of rules and regulations that restrict liberty. The leaders, being often ignorant of the first principles of economic science, everybody is ordered to kow-tow to rules of behaviour based upon the most mischievous fallacies, such as those which purposely limit output, and those which prevent men from passing from one district or one trade to another, when the needs of industry so demand.

The Trades Disputes Act of 1906 paved the way to a state of things which lasted till 1927, by giving to trade unions privileges and immunities (in order, of course, to catch the votes of trade unionists) which obviously lent themselves to gross abuse. As was to be expected, that abuse proved disastrous, and

demonstrated conclusively that the authors of the Act were either idealists who founded their theories on the illusion (so common with idealists) that human nature has already approached perfection, and it is unthinkable that privileges should ever be abused—or else were downright rascals who only thought of keeping their jobs as rulers, with utter indifference as to the consequences of their acts in years to come.

Fortunately, the Act of 1927 undid much of the harm that had been done, and the Socialists have since failed to put us back again where we were, in spite of their best endeavours.

But the danger is not passed, and democracy is proving itself more fatally despotic than any autocracy. No emperor ever thought of reversing the process of evolution ; but democracy, with its chance majorities, obtained by the rhetoric of self-seeking demagogues, may succeed in doing so ; not by superseding natural law, but by using it in ignorance for suicidal purposes—playing with forces it does not understand.

The grave defects of democracy have been shewn up in the most glaring light by post-war events. They are the natural result of the ignorance and selfishness of the masses, even in the most "civilized" countries, and of the unscrupulous ambition of leaders. More especially we have seen that eugenic reform, which is the most urgent need of the day, is very unlikely to be put in practice under democratic rule. Why should the proletariat recognise that it is largely unfit to procreate, and volun-



tarily impose restrictions upon its own liberty in such matters? It is not the way with the proletariat to give up its liberty, unless under the spell of some class slogan which its leaders know how to exploit for their own benefit, or where democracy has disappeared and the tyranny of the lowest been established, as in Russia. In that case the good of future generations is less likely than ever to be considered.

The tendency of rulers, under democratic institutions, to abandon the true principles of liberty has given anarchy a true *raison d'être*, in republics and limited monarchies, as we know them, no less than in absolute monarchies. It is the excess of law-making that gives rise to anarchy as a creed. Every party has a programme, made up of peculiar theories which its leaders are expected to put into practice when returned to power. It is not necessary to prove by sound logic that any one of the host of measures foisted upon us will have a beneficial effect, before trying it. Once enacted, it is not likely to be repealed, however pernicious, because a new host of bureaucrats will get jobs, or somebody will benefit by it and a vested interest will thus be created. It is only necessary, for the enactment of new laws, that the electorate, or a body of electors, be led to think they will be beneficial, or even that one crank, with the title of Minister, be able to persuade his colleagues. Then we shall have them in perpetuity.

The number of laws is so great that it has been found impossible to compile concise codes, whether civil

or penal, and we have the glaring injustice of punishment for ignorance of the law, when no layman can possibly know what the law is. In some countries a concise and intelligible penal code is within reach of all. In Spain it will go into one's waistcoat pocket. In England volume is added to volume; while both civil and penal cases are judged by Acts, Supplementary Acts, Amendment Acts, Consolidation Acts, and the interpretation thereof by mere precedent, which nobody can disentangle without devoting a lifetime to the study. To quote a single instance (though not from the penal code), there have already been *twenty-one* different National Insurance Acts since their first introduction in 1911—and our last state is worse than our first!

The most urgent need of our day is the repeal of ninety per cent. of existing legislation, and the intelligible codification of the remainder.

In the meantime, bureaucracies grow and grow, living as parasites upon the people, who are taxed more and more heavily to support them. Our chancellors tell us there is a "natural" growth which cannot be avoided. If true, this alone is sufficient to condemn our democratic system. As the bureaucrats flourish more and more, the rest of us, especially the workers, have our lives made more and more difficult by reason of needless regulations. The leading-strings become increasingly vexatious; more and more must we waste our time and money over stamp-licking and similar operations. If even the Conservatives cannot see their way to stop this

evil growth, what are we to expect of Socialist governments ?

Thus we get further and further from that ideal of liberty which is the power to do anything which does not injure others, and instead of the Government serving us, we only live to be governed.

God gives us parents to protect and guide us during childhood. When childhood is left behind, He gives us, instead, bodily strength and wits—some of us more, others less—with which to make good. He does not put us into leading-strings. But in these days the politicians know better : they provide the leading-strings which God forgot.

A friend, who shewed the manuscript of the present work to an ardent supporter of popular government, tells me that, after perusal, he made the following remark :

“ Industrialised Civilization cannot be other than democratic, and more and more so as machine industry controls the lives of the people. Democracy is not an ‘invention,’ but a consequence, surely. A slave State is the other alternative, but slaves cannot produce and control complex and ever more complex and scientifically constructed machines.”

As this is a very general attitude of mind among those who take democracy for granted, I quote it—wondering where the proof is to be found that industrialised civilization *must* be democratic. Even if it could be shewn that all such civilizations *were* democratic, this would not amount to proof that

nothing else is possible. But what do we see by looking a little beyond our own frontiers? Italy was never so prosperous *nor so industrialised* as she is to-day. Is she a slave State? If so, anyone who has visited the country lately, as I have, must be struck with the wonderful happiness of these "slaves"—a happiness which seems to have come to them since losing their "freedom" a few years ago. Moreover, they seem more able now than formerly to "produce and control complex machines." All those who have recently visited Italy are agreed that—

"In such matters as railway management—a good test of national character because it depends on discipline—there has been a complete transformation. The surly dishevelled Communists who staffed the lines have given way to courteous, smartly-dressed officials. Instead of the trains being hours late, they run to the minute. Robberies of luggage have practically stopped.

"In the industrial sphere in 1920 there was stagnation and every sign of imminent collapse where to-day there is extraordinary prosperity. Crime has been put down with an iron hand. Beggars have almost vanished. It is said—in joke—that they have all gone to England, for in Italy there are neither doles nor huge systems of relief. 'The people of Italy work, and no man who wants work is unemployed.'"<sup>1</sup>

Yet many theorists, who have never been outside

<sup>1</sup> *Daily Mail*. (1926).

England, are very fond of talking loosely about "the alternative tyrannies of Russia and Italy—the Red and the Black tyrannies," as though they were much the same thing. They are as different as Heaven and Hell.

The dictatorship of Primo de Rivera, in Spain, of which I had long personal experience, was in many respects still more admirable than that of Mussolini.<sup>1</sup>

I do not, however, believe that, in England, a dictatorship would be the best solution, though it may be more likely to come about than the changes I should prefer to see. Eventually, I believe, in the land that may be chosen by Nature in her next attempt to carry forward human evolution, whether that land be England or not, government will be in the hands neither of despots nor of mobs.

Why should a man not *qualify* to become an elector by proving himself competent to exercise that function? An examination in the principles of political philosophy and the main facts and lessons of history; also in logic, so that he might know how to reason, and not be easily led astray by the sophisms of demagogues, would eliminate most of the incompetent, who now *utterly swamp* the influence of those who can think connectedly; and it would enable anybody with the necessary intelligence and a keen *desire* to take part in the direction of affairs, to qualify for doing so.

Our present system is "government by talk." It might with equal propriety be called "government by lottery," since it is a mere chance what slogan

<sup>1</sup> See my book, *Life in Spain To-day*, Blackwood (1930).

will carry the day at election times, where the majority of the electors are ignorant and easily led by the astute. It is "government by the ignorant," because the majority is and always must be relatively untutored as compared with the more highly educated classes. Finally, it is the "rule of selfishness," since nothing can be more certain than that the majority only considers its own immediate "interests," class or individual—real or imaginary.

I see no reason why the vote should be called a *right*. It used to be said, "No vote, no taxation." Is it not equally just to cry, "No taxation, no vote?" And why is the vote not called a function rather than a right? Either it is a part of government or it is not. If it is not, then it is valueless; but if it is a part of government, then, to exercise it, *for the good of the governed*—and surely that is a point to be considered—it is necessary for the voter to have some elementary knowledge of such subjects as may prevent his erring through sheer ignorance.

Had the British electorate studied history, it would never have sanctioned the dole, seeing that free bread and circuses was the prelude to the fall of Rome. To the land that has an ignorant electorate the lessons of history are lost. Is this of no consequence? To those who say, "Educate the electorate," I reply, "Education must come before, not after, the vote; just as in every other walk of life we must learn before practising." As a matter of fact, however, it would evidently never be possible to educate the whole population of a country to the

point of making each individual as capable of judging what policy is for the country's good as are those who have made a serious study of the subjects that may best prepare a man for governing.

But it is not only a question of knowledge, for the exercise of the vote for one's country's good requires character as well. In the words of Dean Inge :

“Where any considerable body of citizens repudiates all allegiance to the State, and follows recklessly either international or purely sectional aims, popular government is virtually at an end, and a more coercive system must be substituted for it.”<sup>1</sup>

That this disloyalty of large sections of the people is the natural tendency of democracies all history goes to shew. Of course, an examination to qualify electors would not do away with this difficulty, but it would diminish its dangers, for there can be no doubt that the educated classes are less prone to baseness than the ignorant.

The most extraordinary development of the fanatical faith in democracy and the strange outcomes of such faith has been the attempt made in some countries to *force* those to vote who have no desire to do so, and, almost certainly in that case, no competence at all. It is like trying to force a private soldier to plan and carry out a campaign that is to decide his country's fate even though he should protest his own utter incompetence.

<sup>1</sup> *England*, p. 247.

With a view to getting rid of government by talk, and the wasting of time by sterile discussions and speeches that are not even meant to convince—for everyone knows that Members of Parliament cannot afford to be convinced, as they are committed in advance to certain views, which they must support whatever happens—it would be necessary not only greatly to reduce the number of electors, but also that of representatives. Probably the best would be to do away altogether with the talkers, and allow the reduced electorate to choose a premier, who would form his own ministry, and govern, as is now done in Spain, by means of “royal decrees.” This would not mean a dictatorship, however, as in that country, for the government would be freely chosen by the intellectual élite of the country. It would be, rather, a rational form of democracy.

Another possible solution for our troubles might be met, perhaps, in the founding of a New Party, even under our present parliamentary régime—a party sincerely devoted to the causes of Retrenchment, Freedom and Eugenic Reform. Is there any statesman capable or sincere enough to form such a party? And if formed, could it live for long under Democracy?<sup>1</sup>

Shall we ever get back to simplicity? It is indeed doubtful whether this can ever be done without violent revolution, and I should be the last to préach

<sup>1</sup> Since this was written the United Empire Party has been formed. Though not committed to eugenic reform, it promises much that has been advocated in the present volume, and—if only because it differs from all those old, decaying political parties that have now so signally failed—we must wish it well.



any such thing ; for revolution, whatever its original aims, has a habit of reaching, sooner or later, that stage when the scum of the nation is uppermost, and the best blood is shed in holocaust. A *coup d'état* might conceivably effect regeneration, as in Italy and, perhaps, in Spain ; but this would depend entirely upon the characters of those who brought it about. There is little probability that we in England shall ever have reason to look for any permanent good in that direction.

These are some of the reasons which incline me to believe that a sound State, whose laws and customs shall be simple, where liberty shall be a reality, and the happiness of our own and future generations the sole preoccupation of government, can only come into being through a fresh start, however small the beginning, made by a few enlightened individuals, lovers of their fellow men and of posterity.

In a small Settlement the question of government would be simple. The laws of the land would, of course, have to be respected, wherever it were established ; but by each settler binding himself never to appeal to that law against his fellows, but only to those of the little Community, much of its tyranny, other than taxation, could be circumvented.

The internal government might be carried on by a council, acting as legislative, executive and tribunal. The function of legislation would be simply that of interpreting the One Law—*Thou shalt not cause suffering*—foreseeing the different classes of particular cases for its application and providing suitable penalties for its breach. As executive, this

council would appoint officers to watch the application of the law and denounce those who should infringe it; and as tribunal it would hear every case, settle disputes and mete out punishment where necessary.

The council could be nominated in the first place by the founders of the Settlement, and modified every few years by the vote of all such settlers as cared to submit to and were able to pass a simple examination in, say, history, political philosophy, logic and eugenics. But whether, at the beginning, such restriction in the number of voters would be desirable or not would be a matter for the founders to decide. Perhaps, while the number of settlers was small, it might be more expedient to give a voice in the management of the Settlement to the head of every family.

As the colony grew, a grading of its citizens according to eugenic value might be introduced, and privileges granted to the higher grades, as suggested in a former chapter. These higher grades would then form a true aristocracy, where superiority would rest upon fact, and not on fiction as is now the case in England.<sup>1</sup> Hereditary titles might be granted to distinguished members of the highest grades.

In fine, all remarks here made about the government of an Eugenic Settlement established upon the lines suggested in the present work are meant as nothing more than suggestions, since it is clear that

<sup>1</sup>See Dr. J. G. Adami's address to the International Eugenics Congress in New York on *A True Aristocracy*.

anything like a cast-iron framework provided in advance would only result in greatly increasing the difficulties in the way of its foundation and lessening the possibilities of its ever materializing into fact.

In conclusion, I will only repeat that if anyone is interested in this idea, I shall be only too pleased to hear from him, and I venture to hope that, if not now, some day—perhaps long after my own death—the scheme may be carried out. I pray that when that day comes, if I am no longer here to see it, my children or my children's children may take part in the founding and help in the early development of the New State.



## DAY TO DAY PAMPHLETS

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- NO. 2. UNEMPLOYMENT : ITS CAUSES AND THEIR REMEDIES. By Rupert Trouton.
- NO. 3. THE HORRORS OF THE COUNTRYSIDE. By C. E. M. Joad.
- NO. 4. WHAT WE SAW IN RUSSIA. By Angus Bevan, M.P., E. J. Strachey, M.P., and George Strauss, M.P.

**UNEMPLOYMENT**  
**ITS CAUSES AND THEIR REMEDIES**

By **RUPERT TROUTON**

With a Foreword by  
**J. M. KEYNES**



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## FOREWORD

MR. TROUTON has here set forth something approaching a complete collection of the chief categories of remedy for Unemployment. Anyone who really wants or hopes to cure the malady must make a selection from Mr. Trouton's Pharmacopoeia.

I must not be taken to agree with all his arguments or all his proposals. But broadly speaking I think that he is right. He delineates correctly the *general character* of what can be usefully done. And even if he has sometimes passed rather lightly over practical and human difficulties which stand in the way of carrying his schemes into operation, he is nevertheless doing a service by emphasising without too much qualification that these schemes, if we would and could accept them, would do the trick.

I commend particularly to the reader's attention Mr. Trouton's proposal for a duty on all imports combined with a rebate or bounty on all exports. An unprejudiced person—if there is one—will find increasing attractions in this idea the more he thinks about it.

It is also important to notice how well a scheme for capital development at home would marry with a scheme for import duties. For the bad effects of the former on business confidence and on the foreign exchanges would be offset by the good effects of the latter ; whilst both would increase employment. But it is, unfortunately, a marriage which neither of the mothers-in-law elect will permit ; whilst the Countess Gruffanuff at No. 11 will have neither—indeed nothing.

J. M. KEYNES.

2 Feb., 1931.

# UNEMPLOYMENT

## ITS CAUSES AND THEIR REMEDIES

It is generally supposed that the existence of a large number of unemployed is a sign of national poverty ; but paradoxically it is, in fact, an ill-judged display of prosperity ; for prosperity is the enjoyment of the ' things ' of this life, including leisure in which to enjoy them. In this country we have not, perhaps, enough of the ' things ' ; but we undoubtedly have too much leisure. The leisure is even more badly distributed than the ' things ', for it is concentrated on 2,500,000 unemployed, most of whom would prefer less leisure and more work to enable them to buy more ' things '. Moreover, leisure is a corollary of wealth ; it has to be paid for. The amount of money expended yearly by the nation in the purchase of the leisure ' enjoyed ' by the unemployed is enormous, and is continually increasing. This may be a sign of economic disorder, but it is certainly not a sign of national poverty.

Probably none of the problems of modern society is more widely discussed than this problem of unemployment, and for none of them have more varied and numerous causes and cures been suggested. But unemployment cannot be attributed to any single cause. It is really due to the existence of a number of factors which, while apparently unconnected, are closely related and interdependent. Each of these is in fact a cause of the trouble, while no single one of them is exclusively to blame ; but their collective effect is far-reaching and disastrous, and is the root cause of unemployment.

Attempts hitherto made to tackle one or other of these causes singly, ignoring the others, have, therefore, naturally had little effect, and, in some cases, have actually resulted in magnifying those others. The reply, for



instance, to the man who suggests removing the dole, in order ultimately to improve employment by lessening the burden of taxation on the nation, is that depression would at once be accentuated by the immediate shrinkage in consumption caused by the disappearance of the purchasing power of the unemployed which at present is maintained by the dole.

Just as there is no unique cause of unemployment, so there is no unique remedy for it: in short, the real difficulty in dealing with the problem lies in the complexity of both cause and remedy. In the following pages it is proposed first to analyse the chief reasons for the present unemployment and trade depression; and secondly to suggest appropriate individual remedies, the collective and simultaneous application of which should result in the definite revival of employment and trade.

At the present time the chief causes of unemployment may be said to fall into three main groups, consisting of those which are world-wide, those which are mainly national and those which are purely monetary. They are as follows:—

#### **A. WORLD-WIDE CAUSES**

1. Over-production, under-consumption and high costs of production.
2. Deflation.
3. World depression.
4. Rationalization.

#### **B. NATIONAL CAUSES**

5. Free-Trade and foreign competition.
6. Reduction in emigration.
7. The dole.
8. Excessive taxation.
9. Excessive foreign investment.
10. Inadequate savings.

#### **C. INTERNATIONAL FINANCIAL CAUSES**

11. Scarcity of credit.
12. Scarcity of gold.

The foregoing classification is necessarily a broad one; since the scope of this pamphlet makes it impossible to take into account the many other causes that are either variants of, or subsidiary to, those set out above, which, subject to this limitation, will now be considered in their order.

## A. WORLD-WIDE CAUSES

(1) **OVER-PRODUCTION, UNDER-CONSUMPTION AND HIGH COSTS OF PRODUCTION.** There is said to be over-production when manufacturers accumulate goods which cannot be sold, and are compelled to reduce the numbers they employ. Over-production is really another name for under-consumption, because it is the state arising from production exceeding consumption. In fact, if there were no demand, it would be over-production for Mr. Ford to produce one car a month !

Costs of production, whatever they may be, are in effect too high if consumers fail both to pay a price sufficient to cover them and to consume at that price the whole production. High costs of production may be a manifestation of inefficiency of management, high wages, or over-production with its corollary of under-consumption. It is most usual to-day to attribute them to the first two causes. This is understandable enough, as the Trade Unions like having a hit at the employers, and therefore cling to the idea that industry is inefficiently managed ; while the employers like to hit back at the Trade Unions and, on their side, maintain that wages are too high. But if both parties could take a dispassionate view, they would see that the greater part of the high cost of production is attributable, not necessarily to inefficient management or high wages, but to under-consumption, or excess of supply over effective demand.

(2) **DEFLATION.** When there is palpably too much of a thing because of increased production, then there is over-production, as is now the case with rubber ; when the excess of supply occurs without an increase in production, then there is under-consumption, as is now the case with motor-cars in America ; when costs of production in an

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industry are out of line with those in the same industry elsewhere (*e.g.* in another country), the incapacity to sell at a profit and the consequent losses or reduction in employment are attributable to high costs of production, as is now the case with cotton goods in England ; but when none of these are patently to blame, then the 'nigger in the wood pile' is deflation, which is usually brought about by a shortage of money, credit, or, let us say, spending power in the hands of the public who are the consumers.

But other causes of deflation include the abstention from buying, due to psychological reasons, of those in no way short of spending power, because they believe that, by delaying, they will get things cheaper later on. The continued fall in prices will stop when the outlook of these people changes, and when they begin to believe that it is better to buy than to hope for still lower prices. In this way a slight recovery in prices may be looked for, followed by a gradual recovery in consumptive power. As employment improves, the purchasing power in the hands of the public increases ; but if the psychological change proves premature (perhaps because insufficient in volume) the recovery may be short-lived, and a fall may set in again.

It is easy enough to realize that a shrinkage in consumptive power is cumulative in effect, a modest reduction in purchasing power leading to a moderate falling off in consumption which, in turn, necessitates a proportionate contraction of output, to avoid accumulation of stocks. The falling off in production leads to a shrinkage in the consuming power of those associated with production, either as employees, managers, or recipients of dividends. This is reflected in shrinkages elsewhere, and so the vicious circle continues.

It is also evident that only small beginnings need be looked for. Such were the occurrence in 1929 of increased disorder in China ; national outbursts in India (leading to boycotting of foreign goods) ; high money rates ruling in America (leading, amongst other results, to a slackening in the building trade, which is financed to a large extent on fixed interest bearing bonds) ; and the final

awakening of the world to Australia's difficulties, aggravated as these were by drought and poor crops.

Prices only fall because there are fewer buyers ; therefore, in times of deflation, not only are less goods sold, but they are sold at lower prices, which means that the national money turnover is doubly lessened. On an average, the poorer classes always spend about the same proportion of their incomes, so that a national reduction in purchases can only be brought about by a shrinkage in the incomes of the citizens. It is not easy to see which is the cart and which the horse, and whether it is unemployment that leads to a falling off in buying power, or *vice versa* ; but it is quite clear that if a large number of people are thrown out of work and receive no money there will be a reduction in their purchasing power, which will produce a corresponding fall in prices—and deflation will exist.

(3) **WORLD DEPRESSION.** The relation of England to the world, from the point of view of the effect of one upon the other, is very much the same as the relation of one industry to other industries in this country. World prosperity (or depression) is normally reflected in a strongly marked tendency towards national prosperity (or depression), though it is just possible that the latter may occur independently of the former, in the same way that one industry of a country may prosper while the others are depressed. But prosperity in such a case is necessarily less than it would be, were all the other industries of that country prospering as well.

If England were not in the position she now is of freely exchanging goods with foreign countries, a state of relative prosperity in a world of depression would not be so difficult to attain. Tibet, for instance, with its natural barriers to trade, is not susceptible to changes in world prosperity. England, however, has a greater dependence on foreign trade than any other country, so that she is the more liable to be influenced by world conditions.

(4) **RATIONALIZATION.** The practice by which industries are amalgamated, methods of production modernized and co-ordination introduced, is known as 'rationalization'.



As often as not it fails in reducing costs ; and when it is successful in this it definitely has the immediate effect of increasing unemployment, because the reduction in costs of production is brought about, in part, by a reduction in labour. This increase of unemployment is only compensated when the profits accruing as a result of rationalization are distributed ; but such compensation takes effect in a different field, and as likely as not merely leads to better employment for chauffeurs and housemaids in London while increasing unemployment among coal miners in South Wales.

If an industrial superman were to discover a means of carrying on all industries with only one-tenth of the labour now employed in them, then obviously only one tenth of the existing employment would be required to maintain the existing amount of production. Presumably this superman would, in order to stimulate sales, lower his prices, and consequently might employ, say, two-tenths in all ; but he would soon find out that, with the reduction in consumptive power as a result of eight-tenths of the workers being unemployed, his best customers had disappeared, and his sales would diminish rather than increase. Therefore his industrial genius would not be of much practical use unless, by displaying a superhuman philanthropy (or devilish cunning !), he were to solve the problem by providing the unemployed with purchasing power in order to maintain his markets.

## B. NATIONAL CAUSES

(5) FREE TRADE AND FOREIGN COMPETITION. In a completely Free Trade country it is conceivable that, in the course of time, the whole commercial activity of the nation might become concentrated on exporting one article alone for foreign consumption, while importing from abroad all its necessaries. To proceed to the absurd, it is not contrary to the thesis of Free Trade that a country might devote all its industry to dyeing ostrich feathers for ladies' hats, and remain prosperous so long as ladies continued to wear hats thus ornamented ; but with a change

in fashion the whole of its export trade might suddenly disappear, because ladies had taken to wearing berets! The economists in this imaginary country might argue for quite a while that it was poor salesmanship, or a hundred and one other reasons, which made trade bad; they might hold out hopes that, by hanging on, things would take a turn for the better; but in fact the only real remedy would be a complete change in the industrial balance of the country.

The spokesman for Free Trade will say that it is not fair to produce such an absurd example as this; but his complaint can be countered by saying that it is equally absurd, on his part, to maintain that a protective tariff would automatically kill England's export trade. A general tariff, he argues, is a confession of weakness, and a definite admission that the foreign markets for our export trade are believed to have been lost for ever. But at the worst such a tariff (even without compensatory measures) would only impose an additional handicap on the export trade. We, in this country, may not have concentrated on dyeing ostrich feathers, but the fact remains that under Free Trade the Lancashire cotton industry grew to such dimensions that at one time it manufactured about 50% of the world's cotton goods, whereas now—still under Free Trade—it manufactures about 25%, most of the reduction being in the export trade. Meanwhile, Brazil fosters her cotton industry behind an impenetrable tariff; Mr. Gandhi has taught India to wear one-piece suits made at home; Japan has developed a huge export trade of her own; China is too occupied in setting up rival generals to buy cotton goods from anybody—and Lancashire has 40% unemployed!

Has not the time arrived, therefore, for England seriously to revise her foreign trade policy, and to avoid having to suffer from trade depression whenever, for instance, Chinaman decides to kill Chinaman? Surely the thoughts of political and industrial leaders should be directed towards a lessening dependence on foreign trade rather than an ever-increasing dependence, as advocated by those who consider 'stimulation of exports' the

panacea. This would not necessitate a denial that the export trade is an immensely valuable feature of our economic structure, but would simply be a recognition that, while it is valuable in enabling us to finance the purchase of necessities not produced within our own country, it is far more sensitive to the influence of world conditions and foreign competition than are the industries which cater for the home market only.

The argument that imports are paid for by exports, and *vice versa*, applies to a long view, but over short periods (even as long as the decade since the war) any disparity is balanced by accumulation or disposal of foreign investments. It has been usual for this country to invest abroad about £200,000,000 per annum. It is not impossible that for quite a long period the reverse might occur, and foreigners invest in England both by acquiring English securities and by repurchasing their own, as they actually did during the war.

A national policy of gradual reorganization, necessitating the transfer of large bodies of workers from export trades to expanded home industries, might indeed result in some falling off in the export trade ; but the country, by living in part on its capital, could survive a period of transition, say of five years, without impairing the standard of living. Such an industrial reorganization would lead to a lower standard of living than the Utopian standard of this country, were it happily indulging in prosperous Free Trade : but the experience of the last ten years has taught us that we cannot successfully engage in Free Trade if the rest of the world is not willing to support our Free Trade propensities. It is more than probable that the deliberate choice of a standard of living in the reorganized country lower than that hypothetically obtainable with Free Trade would result in a standard better than that which has actually existed for the last ten years, during which we have been chronically suffering from depression in textiles, steel, shipbuilding and other basic industries.

The intensity of foreign competition is very largely the result of lower costs of production abroad than at home,

due to the general working population abroad having a lower standard of living than that secured in this country. Safeguarding is a half-hearted recognition of this, but it has been paralysed in its application because of the national proclivity for Free Trade ; though a discriminating tariff is, at best, objectionable, as it leads to competitive lobbying by various industries.

(6) REDUCTION IN EMIGRATION. The proportion of the whole population seeking employment has increased noticeably during the last twenty years. This is due to three things—the increased number of women permanently employed, which was brought about by the temporary demands of the war ; the smaller proportion of children in the population ; and the reduction in emigration. The reduced proportion of juvenile population is accounted for by the falling birthrate and the reduction in emigration. The number of children born annually has remained about the same, so that the child population is fairly constant ; but it now represents a smaller proportion of the nation, because the population as a whole has increased.

The annual rate of emigration since the war has been far less than it was before the war, thereby removing a drain on the population, the incidence of which is largely on the adult members. If emigration after the war had reverted to the pre-war rate, over 100,000 more people would have emigrated annually, which would have reduced the population by something like 1,000,000 in ten years. The bulk of these people would have been removed from the labour market, with a corresponding lessening in the present unemployment figures ; but it must be remembered that a considerable part of these ' unemigrated ' are wives who are not wage-earners, and also that normal mortality has taken its toll of the whole population, including the ' unemigrated '.

Actually, during the war years, when emigration was suspended, the numbers killed did not much exceed a normal four years' emigration at the pre-war rate, so that except for the difference of selection (emigrants would have been drawn from men and women, whereas the

killed were practically all young men) war casualties did not greatly affect the available labour reserve of the country.

The proportion of those in remunerative employment to the total population of this country would be about the same now if there were 1,250,000 unemployed as it was with 250,000 unemployed before the war. The difference of 1,000,000 is due to the lower proportion of children and the smaller proportion of non-wage-earning women in the population. Before the war, these women and children, whose places have to-day been taken by the unemployed, were provided for by their husbands or parents, while now the nation is called upon to support the unemployed. What was a family problem is now a national problem.

The birthrate, during the latter part of last century and the early years of this century, was so high, that it has been impossible to assimilate the whole rising generation in remunerative employment as it matured. Although each person reaching maturity is potentially worth to the State about £1,000,<sup>1</sup> which makes the breeding of adult emigrants to be shipped to other countries an expensive luxury, yet the expense involved is far greater when a country which possesses redundant population is unable to send emigrants abroad, for then the potential emigrants must accumulate at home, swelling the volume of unemployed and calling on the nation to provide them with the means of livelihood.

(7) **THE DOLE.** The elimination of unemployment requires a dynamic policy. Not only should such a policy have inherent in it an impetus towards the permanent absorption of the unemployed, but it should also be capable of continued modification from time to time, in the light of the results achieved. The present method of dealing with unemployment by direct payment to the

<sup>1</sup> This figure represents the costs of birth, rearing, food, clothing, housing, and education: compound interest on these till maturity: an amount to cover the risk of death during childhood: the extra value of an adult due to his ability to provide for more than his own reproduction, since the population does, in fact, increase in numbers: and finally a sum to cover his participation in increasing the per capita wealth of the nation.

unemployed was rushed into as a temporary expedient at the close of the war and is fundamentally unsound, because it has no inherent momentum towards the elimination of unemployment. In fact, it has the opposite result, as some of the unemployed prefer to draw the dole at, say, 30/- a week, rather than work for £2 a week, as they feel that they are, in effect, being asked to work for 10/-, and that it is not worth their while to do so. Moreover, to the extent that the dole relieves some of the misery attendant on unemployment, it must be an indirect cause of it.

(8) **EXCESSIVE TAXATION.** The heavier the burden of local rates and taxes is on a manufacturer, the higher is the 'all in' cost of production in his factory. Until the advent of the derating scheme, which spread the burden of local rates and taxes more widely, the districts in which trade was worst and unemployment greatest had to bear the highest level of taxation per unit of production. As soon as a district fell behind in its competitive power, and had less profits on which to levy taxes and more than average unemployment to cope with, the burden of taxes in proportion rapidly increased, so that the effect was cumulative in driving the district from bad to worse.

In the case of individuals, the higher their taxation the less they have to spend on creating employment. Take the case of a man for whom the last increase of income tax exactly equalled the wage of one gardener. As he was already spending his full income he retrenched and dismissed one gardener. The increased income tax paid by the gardener's former employer will show little margin beyond the amount required to supplement the unemployment insurance scheme with the extra money needed on account of the advent of the gardener to the body of the unemployed; and the intention of securing more revenue for the Government, to be used for general purposes, will fail.

One of the precepts of taxation laid down by Adam Smith was that taxes should be collected cheaply: yet it is doubtful whether the Government is, in reality, getting more than 50%, or very likely only 25%, of the last

increase in income tax as available net revenue for general purposes. The balance has to be used to subsidize the unemployment insurance scheme so as to meet the aggravated unemployment caused by that very increase.

The method of enlarging the national revenue by continually increasing the burden of taxation is unsound. In order to increase its revenue the Government should stimulate the income of its people rather than increase the rate of taxes, which can only have the effect of reducing their income : for the real income of a country is derived from the work done by the people who live in it, and a tax policy which leads to increased unemployment reduces that income.

(9) EXCESSIVE FOREIGN INVESTMENTS. During England's industrial supremacy of the last century the habit of investing abroad grew up. This form of investment enabled foreign countries to finance the purchase of our exports, and so long as our export trade flourished and the *laissez faire* tenets of the Free Trade and Liberal schools of thought were maintained, the very idea that the accumulation of foreign investments might be less advantageous than an investment at home was not contemplated.

Yet the advantages of an investment of capital accrue to many people other than the proprietor of the investment. A railway built in Brazil brings dividends to its English proprietors ; but it also gives direct employment to many railwaymen, as well as enabling Brazil to open up virgin lands, and the farmer population of the country to prosper along its route.

Owing to its indirect advantages, investment at home is often nationally more beneficial, even though privately less profitable, than investment abroad. It is an anomaly of modern civilization that when an undertaking is a private enterprise the capital involved must seek its full remuneration in private gains, which are reaped by the investors ; while if an undertaking is public, such as the construction and upkeep of the roads, the remuneration of the investment is considered to be secured entirely by indirect gains, which are reaped by the users and the

users alone. There is no existing method by which the London & North Eastern Railway can raise money at a low charge on the ground that, although the total return is actually 5%, it is partly reaped by the users indirectly, and only partly by the Railway.<sup>1</sup>

The more that capital introduces labour-saving devices, the more essential is it that capital should be invested at home. Every labour-saving device introduced at home that puts more people out of work should be compensated by the investment of more capital at home, thus giving additional employment.

(10) **INADEQUATE SAVINGS.** Hand in hand with the need for increased consumption by the public is the need for increased savings by the public.

There is a tendency to laud personal savings at the sacrifice of personal consumption, but herein lies a fallacy; for savings should be made additional to national consumption, and not at the expense of it. At a time like the present, if savings are only made at the expense of consumption, unemployment is still further aggravated. Possibly this conception of savings as being the fruits of additional effort rather than of parsimony can be elucidated by an example. A farmer wishing to save an extra £10 during the winter might do so either by selling £10 more milk through stinting his family of it—the usual conception of savings—or, by cutting grass in the summer evenings to make additional hay for his cows, save £10 on his bill for cattle-feed. Obviously, the latter form of savings is much the pleasanter for his family. Applied nationally, this illustration means that savings should be secured, not by reducing consumption, but by increasing production and maintaining consumption, this being a matter of organizing the large numbers of unemployed.

During the last ten years, something like 1,000,000 people have continually been out of employment, over and above the reasonable minimum of unemployed. At the low figure of £2 a week each this represents wasted assets

<sup>1</sup> This need has been recognised in the case of the recent issue of the London Electric Railways, on which part of the interest to the extent of 3% per annum will be met for 10 years by the Government.



of at least £1,000,000,000 in all. With a more perfect industrial balance, so much waste would not have occurred, and the national consumption and national savings would have benefited ; but by an unfortunate internal arrangement in this country the power to save has largely been concentrated in keeping a large body of workers in idleness, instead of being devoted to assisting the production, by these workers, of useful and enduring assets.

Overdrafts, granted by banks, result in a national saving, if the borrowers expend them to good purpose on capital projects. The inflationary effect started by the loans will probably be cancelled out by the increased demands for money to be circulated, resulting from the increased national turnover, consequent upon the addition to the capital assets in the country. On the other hand if the loan were squandered, no saving would result, and its creation would have an inflationary effect, while at the same time slightly mitigating under-consumption.

### C. INTERNATIONAL FINANCIAL CAUSES

(II) SCARCITY OF CREDIT. Inflation is the bugbear of bankers. It is variously defined, but may be taken roughly to mean an increase in the money or credit in a country without a corresponding increase in the need for money. This need varies with the size of the population, the volume of production, the distribution of wealth, or the speed with which people use the money or credit which they have available.

If the people in a country begin to use their money more slowly, hoarding it, for example, instead of spending it, more money (or credit) will correspondingly be needed in order to maintain the previously existing rate of trade and price level. It is, therefore, fallacious for wisecracs to say that, because bank deposits are increasing, there cannot be a scarcity of credit—while at the same time they see that prices are falling precipitately. This is like saying that there cannot be a shortage of shells at the front, because there are plenty in the dumps at the base !

A steady level of bank deposits and a fall in prices occur

together, if the money and credit of the country is being used more slowly than before. It follows that in order to finance an increase of prosperity, trade and purchases without a speeding-up in the use of money and credit, increased supplies of money or credit become necessary, in order that the price level may not be forced to fall for monetary reasons. Consequently a policy which involved the deliberate creation of credits, and might possibly on that account be expected to result in an inflationary movement, would not have this effect at all if it so stimulated trade that production and consumption in the country increased proportionately.

One of the causes of the continued fall in prices of shares is the forced sales brought about by banks demanding additional margin against loans. This fall in security prices has a damaging psychological effect upon industrialists as a whole. They will not undertake expansion when their shares are low, as in such conditions the making of new capital issues is often much more difficult, if not impossible. Therefore the caution which dictates the banks' attitude is definitely accentuating the continued reduction of consumption, and the consequent increase of unemployment. What is caution for one bank in relation to one customer may prove a reckless policy when applied by all banks to customers as a whole. If all the banks' debtors are ruined, the banks will be ruined too. The day they gave up keeping 100% in gold coin against deposits the banks undertook a risk. It is now for them merely a question of where to draw the line. But it is hardly fair *vis-à-vis* the nation that the banks can ruin it one man at a time, while in a financial crisis they rush to the Government for a moratorium.

(12) SCARCITY OF GOLD. The amount of gold required by the world for financing the exchange of goods and services increases rapidly. This is due to three causes :—

(1) The specialization of human activity. In primitive times every family produced all the amenities of life for itself, and had no use for money. But with the growth of civilization specialization inevitably arose ; and now-

adays even the farmer (who might be almost self-sufficing) prefers to concentrate on the production of his crops, and employs a contractor to build his house ; obtains his food and clothes from the towns ; and is, in countless ways, a great user of money.

(2) The growth of the population that uses gold. Within the last sixty years not only has the population of the world expanded very rapidly, particularly in the chief gold-using countries, but many States also have changed over from the use of silver to that of gold as the currency medium.

(3) The ever-increasing trade of the world. This requires progressively larger numbers of transactions to maintain itself, which, in turn, necessitates an increasing amount of gold for currency and credit.

The steady growth of the world's stock of gold, due to mining operations, has by no means satisfied the increasing need of it for currency purposes ; but concurrently with this increased need has arisen the development of credit machinery, by the use of which payments can be made through the medium of banks with little or no gold existing to back the transactions.

One of the greatest economies effected in the use of gold, which has had a result equivalent to adding hundreds of millions of pounds of gold to the world's stock, was the introduction of the Federal Reserve system in the U.S.A. Among the many changes in banking practice introduced with this system was a great reduction in the amount of the gold reserves which the banks were required by law to maintain. Thus the credit structure which could be built up on the gold stock of America was greatly increased.

Actually, bank deposits in England are almost equivalent to currency, so that in England alone there is available a volume of currency consisting of notes, backed with gold and with Government debt, and bank deposits, backed with a mixture of notes, short-term loans and investments, amounting in all to a sum equivalent to the whole world's stock of gold currency. Therefore, were it not for the precautionary measures taken by the world,

when on a gold basis, to avoid the actual use of gold, the total amount in existence would barely be enough to enable England alone to be on a gold basis. A world-wide gold currency is only possible because, in fact, it does not exist. The currency unit in England and elsewhere is 'debt'. This is clearly seen from the fact that the backing of currency notes mostly consists of Government debt, and the backing of bank deposits mostly of loans and investments, being debts of one sort or another.

So long as the world has to rely on the haphazard decisions of the bankers as to their individual gold requirements for reserves, so long will its industries and its trade be perpetually liable to interference and oppression in the name of sound financial policy. But already the bankers of the world have, in fact, left this 'sound financial policy' (i.e., the maintenance of large gold reserves) so far behind, that any attempt to convert its theory into practice would result in the world being compelled to give up using credit as a medium of exchange and to resort to barter. The £150,000,000 of gold in this country is a mere bagatelle compared with the paper deposits in the banks which are being ordinarily used in commerce day by day; and if this gold were alone available to carry on the daily business of the country, the discovery that it represents less than 2/- in the £ would bring about an unparalleled financial calamity. But fortunately the fact is that nobody except a banker pays any attention to gold reserves: and even bankers themselves hold the most varied views on the question. At the moment, almost all happen to be united in saying that the gold reserves of France are needlessly high; but what is their measure of requirements?

Gold is admittedly neither used nor desired for carrying on the internal affairs of a country. The bankers, therefore, cherish it for foreign trade—and refuse to use it for this purpose! The moment a demand arises for gold to be exported in any quantity, they resort to all the expedients in their power to prevent its export; they are content to see high money rates, depressed trade, unemployment,

anything rather than the loss of a few millions of gold, which is, in fact, no loss at all, since it is properly paid for. If their other expedients fail them, they have recourse to *force majeure* and secure a ban on its export. What, one is tempted to ask, is the good of a gold reserve, if the nation cannot touch more than a few millions of it without being penalized for such audacity by high money rates and unemployment?

The foregoing survey of the causes of unemployment, though not pretending to be exhaustive, is nevertheless sufficient to show that these causes are so many and various, and so closely related one to the other, that it is impossible for them all to be eliminated at one stroke by the adoption of any single 'cure', however comprehensive and ingenious.

Remedies can be designed to have an international effect upon the present widely distributed depression, but any such remedies introduced in England can only be of small significance to the world, as the proportion which English trade bears to the whole trade of the world is but slight; and care must be taken that any remedies designed to have this international effect shall not dissipate themselves in a futile effort and react in producing in this country further depression. For example, merely to inflate currency, without taking any other steps, would lead to a withdrawal of gold when imports had been stimulated and exports further reduced as a result of the rise in prices. This would be followed by a rapid increase in the Bank Rate, to preserve the gold standard, and further depression would be created.

Alternatively, remedies can be designed to have only a national effect; but such remedies pre-suppose that the industries in this country are segregated from world influences, in part at least. The more successful the efforts at segregating British industry from world influences, the more successful will such remedies be.

Every measure proposed ought, in itself, only to have a

moderate influence, and be, for this very reason, unlikely to have any marked tendency to upset still further the economic balance of the country. That each of them should to some extent possess such a tendency is, of course, unavoidable ; but the ill effects (the upsetting of the economic balance) of one ought to be more than counter-balanced by the beneficial effects of another. This has been taken as the guiding principle in formulating the remedies now to be discussed, the simultaneous introduction of which should lead not only to a direct stimulation of trade, but also to such a change in the psychological outlook that the present apathy (which is cumulative in its effect) would be dispelled, and replaced by a renewed confidence and vigour.

## REMEDIES

### I. TARIFF POLICY

This country is suffering from too great a fall in wholesale prices. Therefore, a rise in the internal price level would be beneficial. This object would be secured by a (IA) *General Tariff*. Such a Tariff, however, while stimulating the internal trade and encouraging the expansion of depressed industries (such as agriculture) and the development of the manufacture of goods at present mainly imported, would impose a burden on the export trade, so that as a compensating move in order to maintain the export trade in its relation to industry as a whole, a (IB) *Bonus on exports, or draw-back*, should be paid.

### II. WORK FOR ALL

The continued increase in the number of unemployed and the necessity of providing for them by means of taxation which, in turn, aggravates unemployment, should be dealt with by a (IIA) *Dole to Employers* who increase the numbers that they employ, thereby securing that the

nation as a whole would have employment even in bad times. Concurrently with the subsidization of increased employment there should be introduced (IIb) *National Works* instead of the Unemployment Dole, which would combine employment, vocational training and labour agency.

### III. INCREASED CREDIT FACILITIES

The shortage of buying power in the hands of the public should be dealt with by definite assistance to the nation as a whole through the expansion of the deferred payment system, both by the provision of (IIIa) *Cheap Capital for the Credit Institutions* conditional on their passing on cheap terms to the public, and by the provision of a national scheme for (IIIb) *Personal Credits*. The expansion of industries should be definitely encouraged by the provision by the Government of (IIIc) *Cheap Capital for Industry*, in return for a share in the profits.

The psychologically bad influence on industry and individuals of depreciating security values due to forced sales should be recognized by a uniform policy on the part of banks in regard to co-operative handling of frozen credits, and their transfer in a large measure to a (IIId) *National Mortgage Bank*.

### IV. REDUCED BURDEN OF TAXATION

The inadequate savings of the country, which show themselves in the difficulty with which industries manage to keep abreast of the times, should be helped by the granting of (IVa) *Bigger Depreciation Allowances* by the Inland Revenue. Furthermore, a definite decision should be taken to (IVb) *Suspend the Sinking Fund* in bad times, when unemployment exceeds 1,000,000, and to make it the object of Budget surpluses only in times of prosperity. A general policy of (IVc) *Tax Reduction* should, at the same time, be introduced, which would be made possible by the introduction of the General Tariff in excess of the Export Bonus.

## V. BROADENED FINANCIAL BASIS

The necessity for a higher price level should not only be recognized by the introduction of a Tariff and the cheapening of credit for individuals and industries, but made possible by the definite decision to *Increase the Fiduciary Issue* of the Bank of England from £260,000,000 to £300,000,000 in the first place, with the definite intention, as and when the need arose, to increase it still further.

## VI. INTERNATIONAL GOLD POLICY

A universal Gold Conference should be convened, at which, after each country had stated what it considered to be its proper gold reserve, an international scheme to *Ration Existing Gold Reserves* should be introduced.

The remedies here recommended will now be explained in detail.

### I. TARIFF POLICY

The argument between 'Protectionists' and 'Free Traders' centres on the relative advantages to the country as a whole of a discriminating tariff. The advantages claimed are that certain industries would benefit, and, through their increased prosperity, the nation; while the disadvantages urged are that trade in general and the export trade in particular would, by an increase in some costs of production, be handicapped to a greater extent than the protected industries would be benefited.

Neither party, however, discusses the merits or demerits of a *general* tariff, the object of which is to raise internal wholesale prices in order to compensate industry generally for the cataclysmic fall in such prices of the last eighteen months. Yet on all sides it is admitted that industry is crippled by this fall in prices, unassociated as it has been with any corresponding lightening of the burden of interest charges and taxation, and, save to a very small extent, with any reduction in the rate of wages.



**IA.—GENERAL TARIFF.** It is unquestionable that a general tariff of 15% would be beneficial at the present time in stimulating trade in this country. Not only would it encourage industries within the country at the expense of all imported goods, but it would also encourage those who are now holding off markets for psychological reasons to come in and buy, thereby giving a sudden impetus to trade.

Undoubtedly some industries would suffer hardship, as, for example, importing merchants ; but at a time like the present, when trade is bad throughout the country, with a large volume of unemployed and a consequent high rate of taxation, the introduction of a general tariff would have a less disorganizing effect than if it were introduced at a time when the affairs of the country were running smoothly.

A general tariff, including taxes on imported food-stuffs, would admittedly lead to a rise in the cost of living ; but it should be borne in mind that 15% on the cost of raw materials would necessitate a far smaller rise in retail prices to the consumer.

One of the troubles from which the national economy is suffering is the failure of retail prices to fall commensurately with wholesale prices and the prices of raw materials. Thus, the cost of living figures compiled by the Ministry of Labour have not fallen to anything like the same extent as have the wholesale prices given in the Board of Trade Index. Were wholesale prices to become stabilized at about the present level, there would be a gradual further fall in retail prices ; if, on the other hand, wholesale prices should rise for some reason (such, for instance, as the introduction of a general tariff), there is a margin of rise which can occur without necessitating a rise in retail prices ; so that the claim that the introduction of a general tariff at the present time would cause a proportionate increase in the cost of living is exaggerated.

While agriculture would benefit almost to the full extent of the duty, as it competes in all lines with imported goods, the resultant rise in retail prices in general would only be about 3% or 4%. For example, the actual cost

of wheat in a quartern loaf retailed at  $7\frac{1}{2}$ d. is  $2\frac{1}{2}$ d.; therefore 15% increase in the cost of the wheat content should only lead to a 5% rise in the price of the loaf.

Another aspect of this rise in prices is that the household budget of the poor man, as well as of the rich, contains a considerable amount of expenditure on items which would not rise in price (or hardly at all) with the introduction of a tariff, such as rent, travel, amusements, etc.

To the extent that Empire Free Trade necessitates the introduction of import duties on certain goods, it coincides with this remedy of a general tariff; but to the extent that it is designed to prevent the price of imported articles from rising, by reason of their being imported free of duty from within the Empire, it will defeat one object of a general tariff. If such a rise in prices did in fact occur as a consequence of the adoption of Empire Free Trade, it would be more beneficial to the other parts of the Empire than to England. But under the import duty imposed by a general tariff the advantages would be wholly reaped by England, owing to the extra money spent as a result of the increase in prices being retained within the country instead of being paid abroad for the benefit of outlying parts of the Empire. The benefits to the export trade to be gained as a result of the bargains made under Empire Free Trade must be compared with those to be derived from the next remedy proposed, namely, a bonus on exports, the cost of which will be financed out of the general tariff.

The tariff should, of course, be gradually reduced after unemployment has been brought within manageable limits, and after the industrial balance of the country has changed enough to justify such a reduction. The tariff should be regarded much as is the national debt—something to be created in times of stress, but gradually to be reduced in times of prosperity, once more to be created when a new emergency arises.

**IB.—DRAWBACK (OR BONUS ON EXPORTS).** The introduction of a general tariff of 15%, while protecting industry within the country, would penalize the export trade. The corollary should be a drawback on all exports.

A drawback of considerably less than 15% would enable

the export trades to recover the loss occasioned by the increased costs of imported raw materials, directly used, and the rise in the price of services, indirectly used, caused by the 15% tariff. It is probable that a drawback of 7½% would be complete compensation for the 15% tariff in most cases. The cost of raw material in exported cotton goods, for instance, amounts to about 45% of the export price.

The industry, which at first sight seems to present the greatest difficulty, is shipping. The 7½% drawback would have the effect of giving a differential advantage to foreign shipowners, who would be enabled to secure British-built ships at lower prices than British shipowners, as the shipyard could receive its drawback on account of the ships exported. As against this advantage to foreigners, the British shipping industry should receive a *quid pro quo* in the form of a bonus on freights and passenger rates for exports and passages from ports in Great Britain. This should enable shipping companies carrying goods from British ports to benefit to an amount sufficient to compensate for the extra cost of replacing vessels. The question of ships belonging to British Lines trading exclusively between foreign ports could be dealt with by granting the drawback in respect of such ships which had been built in England, but withholding the passenger and freight bonus.

Proportionately with any reduction in the general tariff there should, of course, be a reduction in the drawback.

## II. WORK FOR ALL

IIA.—DOLE TO EMPLOYERS. A dole to employers, administered in such a way that it can only be drawn by the employer who increases the number of his employees, is a direct method of reducing unemployment. Let employers of labour draw a dole, not on their existing employees, but in respect of the increased numbers whom they employ.

There are now 2,500,000 unemployed out of a total of 12,000,000 workers. Therefore, if all employers took on

an additional 20% of labour, unemployment would be reduced approximately to the number we are told is the almost inevitable minimum in this country.

With no unemployment, the real wealth of the country would increase, because the whole of the population would live on the work of 100% of the workers instead of on that of 80% as at present ; and this would probably result in an increase of about 20% in the average amount of wealth available per head.

The payment of a dole to employers would mainly amount to a redistribution of the present dole amongst those on whom it is now largely levied, as the money spent in maintaining it is obtained from rates, taxes, unemployment insurance and the national revenue (presumably income tax), which are met, in the greatest part, by employers of labour.

Allow employers to draw a dole in respect of extra employment up to a total of 20% additionally employed, and let a standard dole at (say) 30/- a week be paid for all labour that is taken on at that wage, but reduce the dole progressively as the wage rate of the newly employed is increased above the standard dole, e.g.,

Dole would be at	25/-	with wage of	40/-
" "	" 20/-	" "	50/-
" "	" 15/-	" "	60/-
" "	" 10/-	" "	70/-
" "	" nil	" "	80/-

Corresponding rates on a lower scale would have to be devised for women and juveniles. This progressive reduction is appropriate, as it is arguable that if a man is worth 70/- a week to an employer, and successfully bargains for such a wage, the employment of the man in these circumstances only justifies a very modest dole.

A dole to employers should be arranged on the basis of its being recognized as a temporary expedient, in that it is desirable to absorb nearly 2,000,000 workers into permanent employment. The dole should be paid on a progressively smaller percentage of workers once the bulk of the unemployed were permanently absorbed. In the first year, the dole could be drawn on an increase of 20% in the number employed; in the second year on 15% ; in the

third year on 10% ; in the fourth year on 5% ; and thereafter on none.

It might later be advisable to offer a further encouragement to expansion of employment, and a method by which it would be possible continually to absorb all unemployed would be to allow the dole to be drawn on a new basis, say on the increase in the number employed beyond 125% of the volume employed at zero hour (i.e. the moment when the scheme is put into operation), with suitable modifications year by year.

As an employer with an old-established business, who availed himself of the full 20% allowance, would be drawing the dole in respect of one-sixth of his labour force, a business established subsequent to zero hour (or for that matter any employer who increased the number of his employees beyond 20%) should be permitted to draw the dole in respect of one-sixth of the total labour employed in it.

Such a system of subsidizing the employer should not meet with opposition from Trade Unions, as their members would still be entitled to keep to their Union rates. There would obviously be more employment at Union rates when some of the employers were subsidized than there is at present. Only if there was no employment at their own proper Union rates would the question arise of undertaking employment at less than Union rates, in which case workmen might be willing temporarily to take employment at work different from that of the Union to which they belong, instead of remaining in idleness.

Since, under the proposed scheme, the employer would receive a larger proportion of the dole for low-priced than for high-priced labour additionally employed by him, the Government, when introducing it, and fixing the volume employed at zero hour by taking, say, a two-years' average, should be careful to ensure that firms did not secure an unfair advantage by discharging all their low-priced labour and then re-employing it. It would, no doubt, be necessary to analyse the different rates of wages existing at zero hour, and then, unless there were good reasons

against it, a similar proportion between high-priced and low-priced labour would have to be maintained in the subsequent labour force, forming the basis on which the dole to employers would thereafter be drawn.

In the early stages at least, while the scheme was acquiring the necessary impetus for absorbing a large quantity of unemployed and until its effects had begun to be felt throughout industry, it would be advantageous to arrange for a special relief from the 20% quota for certain social amenities, such as the reduction of the unsightliness of industrial areas by removing slag heaps and planting trees and lawns around factories. Thus coal mines could take on 40% more labour and get the employment dole on the standard increase of 20%, and also on the special additional 20% who would be employed on levelling pit heaps where possible and making parks and football grounds. The rebuilding of slum areas and beautifying of suburbs could similarly be exempt from the limitation. Large scale improvement of farms, such as drainage schemes, could also be granted relief from the normal 20% allowance; but arrangements should be made for such extra forms of employment subsidies to be eliminated more rapidly than the standard form, as they would, financially speaking, be unproductive.

During the early transition period, immediately following the introduction of the scheme, there would continue to be a very great number of unemployed to whom payment of the now existing dole would sooner or later be stopped. Employment would have to be created for these by temporary expedients, such as the improvement of roads; but even so the present form of dole would have to be continued until the unemployed could be absorbed in temporary work. Differentiation should be made between those temporarily unemployed and those whose unemployment was of long standing.

The scheme would be most valuable in increasing employment in those industries, such as agriculture and textiles, which employ low-priced labour, and would not be of much benefit to the specialized industries which employ higher priced labour. It would likewise be of

more help to the unsheltered than to the sheltered industries, because wage rates are lower in the former, and their products have an international market which more easily expands with moderate reductions in price.

The adoption of the dole to employers might be expected to have an effect on, say, a cotton mill somewhat as follows. Assuming that the average wage rate is 40/-, and that a mill, by expanding output and taking on 20% extra operatives, can draw the dole in respect of them to the extent of 25/- each, then the wage bill will rise from £200 per week for 100 operatives to £240 for 120; but the dole on 20 operatives brings a rebate of £25, equal to a wage reduction of over 10%. The cost of production is made up roughly of 45% raw cotton, 30% wages, and 25% other costs; therefore the saving in wages will amount to over 3% on the cost of the finished product; and a further saving of about 2%, making 5% in all, would arise from spreading fixed charges over an increased output. While not amounting to a large actual reduction in price, such reduction would go far to bridge the gap between existing production costs and world prices.

**IIB.—NATIONAL WORKS.** There should be permanent forms of work available for unemployed at which they could draw a minimum wage. These permanent forms of work, here called 'National Works' for want of a better name, would not necessarily be self-supporting, although, obviously, it would be an advantage to make them as nearly self-supporting as possible. The National Works (which would be the means of providing a livelihood for the unemployed) should have associated with them Employment Agencies, and workers in them should be granted one or two days a week 'off' in which to seek better employment. There should also be associated with these Works facilities for Vocational Training.

There are many outlets for this labour force which would not directly compete with industry. Construction and widening of roads, land drainage, improvement of canals, water supply in country districts, afforestation, conversion of waste lands into parks and recreation grounds are examples.

Unemployment Insurance should also be revised. A man should be allowed to draw a benefit on account of temporary unemployment due to his changing over from one job to another, but the total of these 'between jobs' periods should be limited to a fortnight in the whole year; so that he would not be able to draw any benefit in respect of his 'between jobs' unemployment in excess of this fortnight, without working for it in the National Workshops. Revision on these lines should moreover result in a corresponding fall in Insurance Rates.

### III. INCREASED CREDIT FACILITIES

The means of production throughout the world are so great that a far more prosperous world is required for consumption to equal the productive capacity of its industries. The reason why consumption does not absorb production is not because consumers are satisfied, but because they have to be content with their present rate of consumption on account of their having no means (i.e. money or credit) of more fully satisfying their desires.

Thus if everyone were possessed of more credit, more goods would be bought. Purchases are the result of mental arithmetic by consumers, who have to decide whether they can afford to buy or not.

As the world is at present organized, only a very small proportion of the savings of those who save are absorbed in financing purchases by those who consume, since nearly all savings are invested in further means of production without any regard being had to the stimulation of consumption. Politicians and bankers are far too ready to help foreign consumers with credits in order to stimulate the export trade. It is, after all, not only safer and just as advantageous to the lender, but also more beneficial to the nation, to lend goods to fellow citizens rather than to foreigners.

III A.—CHEAP CAPITAL FOR CREDIT INSTITUTIONS. The hire purchase system has been making considerable strides in this country in recent years, but not on a scale to be compared with those made in the U.S.A. It has been



widely held that the system is unsound, because it enables people to mortgage their future earnings against the present acquisition of an article, such as a motor-car, and that it must, in consequence, lead to the nation living above its income. This is fallacious. The renting of a house, which is an old-established practice, comprises all the distinctive features of hire purchase, except the ultimate acquisition of the property after a series of payments. On analogy it would, for this reason, appear to be far more unsound to rent a house than to purchase a motor-car on the deferred payment system, since ultimately the motor-car is paid for and the pledging of future earnings ceases, which is not the case with the rented house.

However, the house is, in fact, paid for as and when it is built. So is the motor-car. But the house is built because it is hoped to lease it ; the motor-car, because it is hoped to sell it. If the sale is made possible by reason of those with capital lending the money to those without capital to enable them to buy the motor-car at once, then, from a national point of view, the energies of the nation will have been applied to the stimulation of consumption.

There is no reason why the investment of capital in a business which creates and promotes consumption should result in higher remuneration than the investment of capital in any other business. There is no reason, in fact, why a return of  $7\frac{1}{2}\%$  should be considered sufficient in the case of a factory which manufactures motor-cars, while 15% is demanded for financing hire purchases which are essential to making the factory a profitable concern. The only justification there can be for extra remuneration is additional risk ; but the experience of hire purchase companies is the unexpectedly small losses which they sustain. One of the largest of such companies in the United States has lost on a ten years' average only about one quarter per cent, and its losses recently have hardly increased.

The rate of interest charged by the credit institutions at present far exceeds the amount proportionate to large scale management and risk, and is, in fact, earned merely because the industry is as yet on a small scale, so that management expenses are fairly heavy, and the profits

excessive, as is usually the case with a rapidly expanding business. To remedy this, existing credit institutions should be loaned funds either by the Government at a low rate of interest or with a Government guarantee on condition of their undertaking to expand credit at lower rates of interest than the present exorbitant ones.

III B.—PERSONAL CREDITS. A national scheme for the provision of credits, to promote the purchase and consumption of the less perishable kinds of goods which are in daily use, does not exist. Some articles can, it is true, be bought on credit (usually at unduly high rates), such as motor-cars, gramophones, and furniture ; but the credit systems on which they are bought are entirely haphazard, and the tendency is for the less solid and trustworthy members of the community to make use of the various methods available, and for the originators of the schemes to attempt to make a much higher rate of profit than the rate of profit which would be necessary under a nation-wide scheme.

From generation to generation the nation becomes moderately richer and expands in numbers. Thus, each generation of adults provides more than the cost of bringing itself to maturity ; for, taken all in all, each married couple accumulate a little wealth over and above what is needed to bring up a family.

To lend to each adult the modest sum of £300 would involve undertaking but a small national risk, as interest and sinking fund to amortise such a loan by the time the borrower died would be within the capacity of the average citizen.

Any scheme based on the minimum value of an adult would, of necessity, have to involve a graduated reduction with age, so that, say, only half the credit would be extended to a man of 50 as would be extended to a man of 25. The scheme should take the form of enabling loans to be made in respect of the purchase of the less perishable goods, e.g. houses, furniture, domestic electric wiring, farm implements, motor-cars, pianos, gramophones, clothes, etc. ; and in each case a margin of the purchase price should be paid in advance by the borrower.

This scheme would largely be a duplication of the previous remedy, for a sufficiently large extension of the facilities granted by credit institutions at low rates of interest would make it unnecessary ; but it may be needed to persuade these institutions to expand in the way required, just as the National Health Insurance involved Government Insurance in competition with the expanded activities of the Insurance Companies.

The Government could afford to accept the low rate of interest of 5%, as it can borrow money for less ; and there would be no need for it directly to make money or even to cover the whole cost of administration, since the Government itself would benefit indirectly through the higher yield of taxes consequent upon the increased prosperity created by the scheme.

The total credits extended would, however, have to be limited to an amount just sufficient to absorb the potential increase in production which is at present available in the country in view of the general curtailment of output and employment now existing, since obviously a greater extension than this could only result in an inflation of prices.

IIIc.—CHEAP CAPITAL FOR INDUSTRY. The direct and indirect advantages to the nation as a whole resulting from capital invested within the country are usually greater than the direct advantages secured by the lender, for such capital may be a source of constant employment, which helps to enlarge the national revenue.

If, therefore, the Government were prepared to lend money to industries at a very low rate of interest, say 3%, the yield, from a national point of view, might be considerably greater ; and if the indirect benefit amounted to more than 2%, thus causing the direct and indirect earnings to exceed 5%, internal investment would be justified as against many investments abroad.

Large numbers of industries, if enabled to borrow money at 3% from the Government, would willingly do so in the hope of making a considerably higher profit than this. Even if the expenditure did not earn more than 3% directly to a Company borrowing the money, it might be

justified by the indirect advantage which, though not reaped by the Company, would be reaped by the nation as a whole. But it is only reasonable to suppose that Companies would anticipate making considerably more than 3%, and would be prepared to undertake to pay over to the Government a share in the additional profits earned.

III.D.—NATIONAL MORTGAGE BANK. An understanding between the banks to carry doubtful accounts, rather than to force sales, would enable Stock Exchange markets to recover as soon as the volume of forced sales was withdrawn. It will, of course, be maintained by banks that it is not their duty to gamble, and that they must adhere to the rules of safety ; but banks departed from the rules of complete safety when they began acting as banks, and ceased being merely safe deposits with 100% gold backing to their customers' deposits. Treatment of loans in this way would not really be so far from banking practice, since a well-known misfortune of the banker is the ' frozen credit ', which is a loan made against some security which proves so inadequate that the bank dare not sell up the customer, as the sum realized would fall short of the loan by such a wide margin that the bank does not care to open its eyes to the real loss it is faced with at current market prices. The outstanding example of frozen credits is the loans by the banks to the Lancashire cotton industry.

In order to assist the banks in taking action in the matter, it would be advantageous to set up a national institution to provide permanent finance for frozen credit positions. The banks could retain the more manageable of the frozen credits, and allow the balance to be transferred to a National Mortgage Bank. In this way, by going to the national institution, some of their customers would be able to secure increased credits for long periods, while others would be able to avoid being sold up. Due regard would, of course, have to be paid to the question of intrinsic solvency.

Assuming that the banks have made about 5% of their advances to customers, either individuals or Companies, whose margins have run unduly low or whose security is so hard to realize as to make the credits frozen, the

National Mortgage Bank might have to co-operate with the banks in handling £50,000,000 of such credits. The most satisfactory method would be for the capital of the National Mortgage Bank (say £5,000,000) to be provided jointly by all the banks, while the Government advanced money to it or guaranteed its prior charges.

#### IV. REDUCED BURDEN OF TAXATION

IVA.—BIGGER DEPRECIATION ALLOWANCES. An example of the shortage of savings is found in the case of old-established firms which, for one reason or another, do not set aside enough annually to depreciate their plant and machinery sufficiently fast to maintain their businesses in an up-to-date manner.

The policy of the Inland Revenue authorities in allowing only a very low rate of depreciation free of tax doubly discourages adequate depreciation, because on the one hand, at the present rate of income tax, it takes £40 of income to put £31 to depreciation if it is not accepted by the Inland Revenue as an appropriate charge ; and on the other hand there is a tendency for Company directors to delude themselves into thinking that they have allowed adequate depreciation when they have provided the amount acceptable to the Revenue authorities.

An example which has been brought to the public notice recently is the decision made by the Inland Revenue that depreciation of aeroplanes by Imperial Airways Ltd. shall be spread over a minimum period of five years, while at the same time the Air Ministry insists that, as a condition for receiving its subsidy, aeroplanes must be depreciated within a maximum period of four years. This difference is not very great, but it is an example of the Inland Revenue's arbitrary and dictatorial method of fixing depreciation rates.

A conservative shipping Company, immediately a new vessel is completed, writes off one third of its value in depreciation : the Inland Revenue, however, refuses to allow a penny more than 4% per annum to the Company. But the injustice of the present method of depreciation

allowance is most evident in the case of technical machinery, which becomes obsolete very rapidly, and when it is scrapped has very often to be charged as a capital loss and not as depreciation. Were industry as a whole allowed an additional £50,000,000 annual depreciation free of income tax, the loss of revenue would not exceed £10,000,000, while the benefits which would result to business and trade generally are obvious.

IVB.—SUSPENSION OF SINKING FUND. The primary object of the Sinking Fund is to reduce the National Debt. This object possesses a two-fold importance, as it both leaves the country free to re-create the national debt in an emergency, and also ultimately reduces the burden of taxation. In addition, the Sinking Fund has a secondary use in that it provides a permanent buyer of Government securities, with the result that the Government is enabled to refund its debts at lower rates of interest.

Therefore the Sinking Fund is a good object of sound finance, so long as it does not in itself necessitate unsound finance. If the £50,000,000 devoted to the Sinking Fund is secured by an extra 1/- on the income tax, and that 1/- on the income tax so depresses trade that it leads to increased unemployment, the advantages of a sinking fund may be more than cancelled by the evil it creates.

At the present moment, in addition to the over-taxation from which the country is suffering, interest rates are falling to such an extent that the operation of the Sinking Fund is no longer essential to their fall. Thus, on the face of it, the maintenance of the Sinking Fund at the present time is as unnecessary from a narrow financial point of view as it is harmful from a broad national point of view, and it should be definitely suspended.

IVC.—TAX REDUCTION. The remedies here proposed, such as a tariff, a bonus on exports, the suspension of the Sinking Fund, and increased depreciation allowances, would naturally necessitate major alterations in the Budget.

As imports amount roughly to £1,100,000,000 per annum, a 15% tariff would yield £165,000,000, from which should be deducted a margin for contraction in

imports. The bonus on exports of about £700,000,000 at  $7\frac{1}{2}\%$  would amount to £52,500,000, to which should be added a margin to cover stimulation of exports and costs of administration. There would also have to be an addition to meet the bonus on shipping : but the suspension of the Sinking Fund, while revenue is suffering from bad trade, would relieve the budget of a sum of £50,000,000. On balance there would, therefore, be left a very large sum for tax reductions.

These tax reductions should be designed with two objects, the first being the relief of the poor to the greatest extent possible, as prices would be raised for them somewhat (although far less than usually anticipated) as the result of a general tariff. It is difficult to relieve the very poor of taxes, as they pay practically none, but the intention of the suggested reductions mentioned below is to benefit, as far as possible, those with modest incomes. The second object should be to produce a psychological effect on the population which will dissipate the now prevailing atmosphere of uncertainty and depression, and this can probably be produced more easily by a reduction in income tax than by any other means. It is therefore tentatively proposed that the following reductions should be made :—

	£
Eliminate Income Tax on incomes under	
£200 per annum .. .. .	20,000,000
Reinstitute id. Post .. .. .	8,000,000
Take id. off Beer .. .. .	15,000,000
Reduce Duty on Sugar .. .. .	7,000,000
Reduce Entertainment Tax (no tax on seats under 2/-) .. .. .	3,000,000
Reduce tax progressively on old cars and motor-cycles and side-cars .. .. .	7,000,000
Take 1/- off Income Tax .. .. .	60,000,000
	<hr/>
	£120,000,000
	<hr/>

With regard to the reduced tax on old motor-cars and

cycles, many of these, which can be bought for about £10 or £20, are quite road-worthy vehicles, and could be a source of considerable pleasure to people with small incomes, were it not for the fantastically high tax (in operation now) in proportion to their present price. In fact, the annual tax on many cars at present on the roads considerably exceeds their market value.

It must be remembered, in considering the burden of taxation on the poor, that the general tariff would be applied in respect of wholesale articles and raw materials, and that the rise in prices occasioned by it could, at the present time, be completely absorbed in the difference between the fall in wholesale prices that has taken place and the relative stability which has been maintained by retail prices : and further, that the whole object of this scheme of remedies is to stimulate employment, and thereby inevitably to stimulate the rate of wages of the poor.

The result of a general tariff, insofar as it puts up prices, will be to increase, in terms of money, the income of the nation, and thereby to raise the money income on which taxes are levied ; but it is not here proposed that any allowance should be made for the consequent benefit to the revenue from this probable source. On the other hand, allowance should undoubtedly be made for the benefit accruing to the Government from the stimulation of all its other sources of revenue by reason of the nation having, as a result of the tax reductions mentioned, more money to spend on objects other than the payment of taxes. Since the Budget amounts to about £800,000,000 on a national income of about £4,000,000,000, it is reasonable to assume that, as 20% of the national income reaches the Government by way of taxes, to relieve the nation from the payment of £120,000,000 in taxes will yield at least a £20,000,000 gain from other sources of tax revenue.

Other items to be taken into account are a saving of £20,000,000 to be made by refunding War Loan, which is almost possible now, and should be possible after the proposed reduction in income tax and in view of the corresponding optimism in the psychological outlook which such reduction would bring about, and, on the debit side, the



loss of money paid away in interest which must be anticipated as a result of the proposed schemes necessitating the Government borrowing in order to re-lend at lower rates of interest to industry and to individuals.

The effect of these revenue changes and tax reductions is set out below in the form of a Profit & Loss Account, in which it will be seen that there remains a balance of £39,750,000 margin for error to be carried to the existing Budget :

£	£
Increased Depreciation Allowance..	General Tariff on imports—
10,000,000	£1,200,000,000 at
Tax reductions ..	15% £165,000,000
120,000,000	Deduct 10% for contraction and administration
Bonus on exports of £700,000,000 at 7½% £52,500,000	£16,500,000 .. .. 148,500,000
Add 10% for stimulus & administration	Sinking Fund suspension .. .. 50,000,000
£5,250,000 .. .. 57,750,000	Stimulus to general revenue through
Shipping Bonus .. 5,000,000	Tax alterations .. 20,000,000
Interest losses on loans & advances 2% on £300,000,000 .. 6,000,000	Refund War Loan.. 20,000,000
Balance in hand .. 39,750,000	
£238,500,000	£238,500,000

## V. BROADENED FINANCIAL BASIS

**INCREASED FIDUCIARY ISSUE.** The amount of currency secured not on gold but on debts (called 'fiduciary currency') in England is the outcome of a fortuitous set of circumstances.

The Bank of England's fiduciary issue is now £260,000,000. This figure has been arrived at in three stages, the first being as far back as 1844; the second during the war; and the third two years ago.

The first stage was the acceptance of what happened to be the amount of the fiduciary issue of the Bank of England in 1844 as the maximum permissible under the Bank Act thereafter. Prior to 1844, this amount had fluctuated, and its elasticity had enabled the currency to adapt itself to the national requirements: but after that year there was no such flexibility in the currency system, and the slump of the '80's can be traced, in part, to this cause. In the course of the seventy years from the passing of the Bank Act up to 1914, however, the increase in the use of cheques and the growth of the Joint Stock Banks had made up for the inelasticity of the currency basis of the country.

During the war, the Government issued notes with scarcely any backing other than Government debts—that is to say, issued fiduciary currency. After the war the fiduciary issue then happening to be outstanding was fixed as the maximum by a Treasury Minute, which went on to say that thereafter the actual maximum attained in each year would be the permissible maximum for the succeeding year.

When this had gone on for some time, with a gradual reduction not only of the fiduciary issue but also of the right to it, the Treasury currency was, in 1928, taken over by the Bank of England, and at the same time the maximum fiduciary issue was fixed at the nearest round £10,000,000 to the then outstanding amount.

It is mere stagnation to regard the present figure of £260,000,000, reached in such a haphazard manner, as something unalterably fixed, and a corollary of the remedies here suggested for ameliorating the present catastrophic conditions in the country is that the fiduciary issue should be increased as and when it is convenient in the interest of credit so to do, and as a first step its increase to £300,000,000 should be agreed upon at once.

## VI. INTERNATIONAL GOLD POLICY

The League of Nations has been studying the prospects

of gold production in the future, and has drawn a gloomy picture. It anticipates a steady reduction from now onwards.

As the world's supply of gold is already insufficient to enable all countries, desirous of using gold as the basis of their currency, to secure enough for their Central Banks to satisfy the generally accepted theories as to the appropriate magnitude of gold reserves, this insufficiency should be internationally recognized ; and a universal Gold Conference should be called, to which should be invited not only gold-using countries, but also those at present using silver ; the latter being requested to say whether they had any inclination to change over to a gold basis. Each country would first be required to state the amount of gold which it considered to be desirable for the gold basis of its currency, whether this was to be held by a Central institution, or by banks and in the hands of the people. Then each should be asked to estimate the probable annual increment of gold required in order that the expanding needs of the country might be maintained at the current level of prices, or rather at a level slightly in advance of current prices.

It would undoubtedly be made clear as the result of such a Conference that the world's gold requirements very considerably exceeded the available stocks ; and, furthermore, that the anticipated annual requirements of gold would largely exceed the probable world production of gold in the future. The realization of these facts should lead to a system of rationing being proposed, and each country should undertake to content itself with the amount of gold that it would receive under this system. For example, the British representatives at the Conference, with due regard to London as a money market, might hold that they should be allotted £250,000,000 of gold to allow a margin for real financial comfort, and that there should be an annual increment of £5,000,000. When, however, it was discovered that there was actually available for each country say 50% of its reasonable requirements, the appropriate figure for Great Britain would be £125,000,000. Thus the present gold stock of this country

would be in excess of its ration allowance and should consequently, be reduced, without any feeling that to do so would be courting danger or creating the necessity for an increased Bank Rate. The examination of the prospective gold production might lead to the conclusion that only 40% of the annual increment required would be available, so that instead of £5,000,000 increase annually only £2,000,000 should be aimed at in England.

The publication of the figures, even if there was no definite undertaking by countries to direct their financial policies in accordance with a rationing scheme, should open the eyes of bankers in general to the amount of gold in relation to the credit available, and thereby should influence them towards the acceptance of smaller gold reserves as sound banking practice.

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Unemployment can be cured. It is indeed a complex problem, yet it is as capable of rational solution as any other, given the necessary energy and goodwill on the part of those who would solve it. But unfortunately there has been a growing tendency, especially in the last few years, to regard unemployment as a permanent and inevitable feature of the post-war economic condition of this country ; and successive Governments, instead of making a whole-hearted and determined effort to grapple with it, have either passively acquiesced in or actively encouraged this pessimistic view, and have fallen back upon the dole, which can never be anything but a palliative.

Unemployment, however, is not a fatal and inevitable aftermath of the war : still less is it a means of paying for the war ; a view of it which seems, for some obscure reason, to be widely prevalent. The war must, obviously, have been paid for during the war years : and the ' war payments ' which now figure so largely in international affairs do not represent the process of paying for the war, but are the settlement of contracts entered into between those who paid for it at the time and those who fought it :

they are no more the payment for the war than payment of the rent of a house is payment for the building of it. A man pays for a house when it is built : he may enter into a contract with another man regarding the renting of it ; but such a contract does not pay for the house, it only repays for it.

Naturally, the creation of war debts has made necessary a readjustment of the economic balance, not only of the nations concerned, but also of society within those nations ; but the actual wealth so readjusted is in no way diminished. Take the example of card debts. If A loses at a game of Bridge £50 to B, it is a loss from A's point of view : but from the point of view of the community as a whole it is not a loss but merely a re-distribution that has been effected. The case is precisely the same with war debts. The world is no poorer because of war debts : England is poorer, and the United States richer ; but in each instance owing to the war debt payments they have arranged between themselves. An altogether exaggerated idea exists of the importance of the effect on England of her debt to the United States. This debt involves about £30,000,000 per annum ; yet England invests abroad, on an average, five times this sum annually ; so that in effect she hands to the United States only one-sixth part of her annual savings made abroad.

It is not, therefore, the war debts but the economic disorder created by the war that has led this country into keeping more than 1,000,000 people continually unemployed. Yet these unemployed, although at the moment a source of poverty, are potentially a source of great wealth : for so long as people want light, food, clothes, motor-cars, gramophones, and all the other material comforts of civilization, so long is there work for the unemployed in supplying more of these things both for themselves and for the rest of the nation. If the whole nation could be put to work, to satisfy effective demand, the resultant amount of increased wealth measured in terms of things created and services enjoyed would be so great that the average standard of living would necessarily rise. This rise would be such that those who would be

damaged economically by the introduction of the foregoing remedies would probably find that their standard of living was at most reduced only to such an extent as would be counterbalanced by the average improvement, and they would actually be no better and no worse off than before. In fact, what they 'lost on the swings' they would 'gain on the roundabouts'. Consider, for instance, the case of the rich man with an annual income of £20,000 derived from investments. Of this income, his taxes take £8,000 or so and of the net £12,000 he spends, say £10,000 and saves £2,000. Now, even if the introduction of the general tariff raises prices by 10% (though 4% is a more likely result) so that his annual expenditure of £10,000 will have to be increased by 10% to £11,000 in order to maintain his existing standard of living, yet the reduction in income tax introduced concurrently with the general tariff will exactly provide this extra sum, thus enabling him still to save £2,000 per annum.

It is difficult to see how there can fail to be a general demand for large wage reductions this winter, if only to enable industry to cope with the tremendous fall in prices of the last twelve months. Such reductions, if they do occur, will have the effect of lessening instead of increasing the already insufficient purchasing power within the country. While a specific reduction in wages will enable a particular industry to continue to provide employment, the sum total of these reductions will have a general influence towards decreasing demand and thereby employment: so that this proposed remedy for unemployment, which is so widely advocated by employers of labour, contains within it probably as much harm as good.

If the level of wholesale prices, retail prices, cost of living and wages all moved up and down equally and together, changes in price levels brought about by monetary conditions would not (provided interest charges are ignored) be of such importance as they now are. The manufacturer would be compensated for the fall in the price of his products by the equivalent reduction in wages; while the employees would not suffer by the reduction in

wages, as the cost of living would be correspondingly down. But the trouble is that this does not happen in reality. Since the return to the gold standard in 1925, wages have only fallen 2%, while wholesale prices have fallen 35%. This fall in wholesale prices has had an effect on industry similar to a 50% rise in wages without any change in prices, coupled with a 50% increase in the burden of interest paid on loans and mortgages. If there had been an expansion of the economic development of England sufficient to justify this burden on industry, all might be well ; but no such expansion has occurred, and the result is that industry is increasingly unable to provide employment for those who seek it. Any attempt, however, to restore the *status quo* of 1925 by reducing wages by 35% could only mean inflicting impossible hardship on labour, since the cost of living has only fallen 15%.

The cost of living and retail prices cannot rapidly be brought down to the level of wholesale prices without ruining the retail trade. Already many of the largest retailers are being damaged, not benefited, by the fall in wholesale prices, because stocks acquired earlier in the year have to be so drastically written down before retail prices can be lowered. Everything points to the need for raising wholesale prices, instead of lowering wages and retail prices. A rise in wholesale prices would make it possible for the retail trade to carry on at the existing price level, and for industry as a whole to increase employment by re-employing labour at the present level of wages. It is with this need in view, and with full recognition of its importance, that the foregoing scheme of remedies has been designed.

It is impossible within the limits of this pamphlet to do more than outline remedies, let alone to meet criticisms which are only too easy to anticipate; but a general criticism which will undoubtedly be brought against the measures proposed is that their introduction is impracticable—a criticism which is too often an excuse for timorous inactivity, rather than a valid objection, and a depressingly familiar feature of the public utterances of political and

financial leaders. A few words may, therefore, be said in this connection.

A general tariff should be as easy to impose as a limited one levied on certain imports, as at present : but if first-hand information on this point were desired, there are many countries in the world with tariffs so nearly general that their examples could be studied. Again, the bonus on exports is no more difficult to administer than a general tariff, and considerable experience in this direction must have been acquired from the re-export trade in goods subject to an import duty.

It will be claimed that a dole to employers may be feasible in theory but quite impossible in practice. William Pitt met with this argument when he introduced the income tax—a far more ‘impossible’ scheme to put into practice than a dole to employers. If no dole of any kind existed, it would, on the face of it, appear far easier to administer without abuse a dole to the employers, who are comparatively few in number, than a dole to the unemployed, who are much more numerous and whose individual cases should, in their total, entail considerably more examination.

Similarly, it will be objected, a system of personal credits may be theoretically possible, but is fantastic when the mechanism of its application comes to be devised ; yet Old Age Pensions and National Health Insurance, taken together, present difficulties in administration at least comparable to those which a system of personal credits would involve.

The proposal that cheap capital for industry should be provided by the Government is similar to the policy which has been carried out for many years in a tentative way by means of Trade Facilities Loans.

With regard to the other remedies suggested, it is difficult to foresee what objections, purely on the ground of impracticability, can be raised against them.

The criticism of ‘impracticable’ is the criticism which age levels against the ideas of youth ; which conservatism levels against innovation ; a criticism the acceptance of



which would have made impossible the creation and maintenance of an army of several million men in the war. It is difficult to think that a country which was capable of such an effort as this is incapable now of overcoming its industrial depression ; and if only the war-time spirit of enthusiasm, energy and determination were once more revived, England could achieve the economic recovery which the faint-hearted and the apathetic at present believe to be impossible.