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REVIEW.

THE INVARIABLE STANDARD AND MEASURE OF VALUE

THE INVARIABLE STANDARD AND MEASURE OF VALUE

BY

J. TAYLOR PEDDIE

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TO

MY FRIEND

FRANCIS FRANCIS

No gain of wealth and welfare is so certain as that which proceeds from self-reliance and the development of the resources we already have. For this we require freedom of trade by regulation, without the restrictions imposed by gold money. (p. xiv.)

PREFACE

I PURPOSELY omitted a study of the theory of value from my last book *The Flaw in the Economic System*, partly because it would have required more time and study than I could then afford to give to the subject, and partly because I was puzzled by some of the technical terms used by modern economists in connection with the science.

Such technical terms as Exchangeable Value, Law of Supply and Demand, Inflation, Deflation, etc., are effective in a gold standard science of political economy, but they are not effective in a science of political economy based on potential productive power. As the main theme develops, it will be seen that the technical terms employed in the one acquire a totally different meaning in the other. And I am certain that until the economists decide to classify and separate the principles involved, and begin to think in terms of productive power, they will be unable to find a solution for the present acute industrial depression.

In a science based on productive power, life is made up of service, and humanity obtains its freedom. In a science based on gold, humanity is placed in bondage to the gold interests, who hold "that Labour has no value, that what is bought and sold is not the labour, but the product of the labour." The services of the human being have no exchangeable value, but the product of his labour may possess one. Therefore, my advice to producers and labour is that they should proceed to develop the true science that is based on productive power—to which end this work may be helpful. It is in this direction only that they will obtain salvation.

After developing my thesis I conducted a line of inquiry through the elder and modern economists to see if I could obtain support for my theories, and the aphorisms which I have extracted from the Works of Adam Smith, Ricardo, and Frederick List are the result. The advantages derived from the publication of the aphorisms in the condensed form in which I publish them are :—(1) that they afford extraordinary confirmation of "The Invariable Standard and Measure of Value," and (2) that they show clearly that the present Free Trade Gold Standard System has no solid basis in history, or in fact; and that in its present position, it is not only false, but untenable. I enlarge upon this in Chapters X, XI and XII. The quotations also show beyond dispute that Adam Smith, Ricardo, and J. B. Say were not free traders. I have emphasized this fact as regards Adam Smith for many years past.

The aphorisms with which I agree are those that are related to a political economy based on productive power (the most important being indicated in italics); but I disagree with those that are related to a political economy based on gold *and silver*. The latter are easily distinguished.

It is to be observed that I oppose the new theories of a "Stable Price Level," and a "Fixed Purchasing Power," on the ground that Great Britain has to bear a burden of taxation which, per head of population, is greater than in any other country. Mr. Churchill in a Parliamentary paper quotes the following details of taxation per head of population in the following countries:—

	1913 or 1913–1914.			1925 or 1925–1926.		
	£	s.	d.	£	s.	d.
United Kingdom .	3	11	4	15	2	8
France . .	3	7	0	8	5	10
Germany . .	1	10	8	5	6	5
Italy . . .	2	2	8	3	8	9
U.S.A. . .	1	7	11	6	1	11
Canada . .	3	8	3	6	19	4
Australia . .	3	8	1	9	1	6
New Zealand .	6	3	0	14	0	9
South Africa .	6	15	4	11	17	2

The figures for South Africa are calculated on the basis of the population of European origin.

As a consequence, the basic industries of Great Britain have to include in all costs of production indirect charges that have no intimate relation to actual costs of production, and to suggest that we should fix the purchasing power of money in such circumstances is to suggest that we should permanently impair our competitive power in favour of other countries less heavily taxed. Furthermore, it would be necessary for the world to regularize the eight-hour day and standardize wages before the idea of "a fixed purchasing power," or a "stable price level," could come within the range of practical politics.

I am of the opinion that it would be unwise to accept any theory that may prevent the producers and labour from deciding the issue for themselves after a practical working experience of an invariable measure of value. For close upon a century producers and labour have been the slaves of economic laws and theories that have proved to be erroneous, and the basic industries should now energetically refuse to go beyond a simple reform of the monetary system until their competitive power has been restored to a profit-earning basis, even if it be only that of a penny in the pound.

What the basic industries of Great Britain require to-day is the right to adjust and overcome their economic difficulties through machine power, aided by a monetary system that is based on productive power. In order that the burden of taxation per unit of goods produced may be minimized, an increase in the volume of production is essential, and it is in this direction only that the basic industries and labour will achieve their salvation. The whole burden of taxation has been applied in an unscientific and irregular way. A redistribution of its weight would produce some extraordinary results.

Another prerequisite condition is an era of cheap money and low interest rates on Government debt, so that a substantial reduction of the burden of taxation may be effected. This is one of the essential reforms. As I clearly indicate in *The Flaw in the Economic System*, page 211 :—

"The only sound money is that which is created on wealth products, since it brings about an era of cheap money. Real capital savings come out of the profits earned in the development of production, and from no other source ; so that, in order to get cheap money, we must develop the nation's potential productive power, which alone creates it. We may continue to have a large quantity of credit based on gold, deposits and Government debt, but if our wealth productive power remains on a low scale, then, as we have said, the price of money must remain dear, since the demand for credit facilities from those who control our productive power must always be greater than the available supply."*

* Always assuming that competitive power has been restored to the basic industries—subject to profit.

Mr. Edward A. Filene, a prominent business man of Boston, U.S.A., in a recent article * writes as follows :—

" A business is prosperous when it makes good profits. A consumer is prosperous when he can buy more than the usual amount of the things he would like to own. Obviously the prosperity of business depends upon the ability of the consumer to buy.

" Therefore, if we can find out how to make it possible for more consumers to buy more of the necessities and luxuries that they want, year in and year out, with no letup, we shall have greater, more general and more stable prosperity.

" Now, the ability of the consumer to buy increases when the amount of money he has to spend increases without a proportionate rise in prices, or when prices fall without a proportionate decrease in the amount of money he receives as wages or salary.

" To raise wages and salaries and at the same time reduce prices is doubly effective in promoting the prosperity of consumers. That at once points to the elimination of waste as one of the essential and most effective steps in promoting general prosperity.

" *An industrial engineer has said that it is likely that in the next few years costs will be lowered and wages raised to such an extent that every farmer and wage earner will have the consuming power which to-day is enjoyed only by those with incomes of* 10,000 *dollars a year.*"

* *The Christian Science Monitor*, Boston, March 19, 1928.

The italics are mine. This quotation agrees with the economic concept I have developed, but how to make it effective, from a monetary point of view, is the problem. I invite my readers to study the general theme of this work minutely, as I think it provides the scientific solution.

Mr. Filene refers to the work of the "International Management Institute" at Geneva, whose objects I have examined, and among its considered opinions are the following:—

(*b*) p. 4. "Simplification of processes and types can, on the other hand, ensure considerable economies in production and international trade, not only by reducing waste of manufactured commodities, but also by making the mass production of such commodities possible, which, in turn, permits of lowering to an appreciable extent both the cost of producing those commodities and their sale price."

IV, p. 9. "One of the most important problems raised by the general application of rationalization is that of working out and applying an appropriate credit policy.

"It is therefore expedient that credit institutions should, with this object in view, carefully follow the evolution of modern methods of industrial organization. The fact that, in various countries, banks have set up industrial departments shows that bankers appreciate, apart from the purely financial guarantees afforded by an industrial undertaking, those guarantees which are provided by sound organization and cost accounting. It is the Institute's intention to encourage this development to the best of its ability."

The greatest form of co-partnership is that which is obtained by the community from a falling price level subject to profit, and from a purchasing power that is fixed in terms of wealth products and not in terms of gold. All other forms, except share ownership, are mere delusions. The danger to be guarded against from such propaganda is that the public mind may be diverted from the real flaw in the economic system. The great need of the moment is to create a common aim and a common purpose.

No gain of wealth and welfare is so certain as that which proceeds from self-reliance and the development of the resources we already have. For this we require freedom of trade by regulation, without the restrictions imposed by gold money.

In order to achieve and make effective the "dual system" of raising wages and lowering prices it will be necessary to stabilize money in costs of production. It certainly cannot be done by fixing the purchasing power of money and stabilizing the price level. The latter method would eventually lead to inefficiency and lack of enterprise, and to instability of credit.

The true principle has many times been clearly proved—that production and trade should control the currency, and that currency should not control production and trade. The power of money to control prices and production should for all time be destroyed and the merit of any currency theory should be decided by this test. The only thing that producers and labour need concern themselves about in any new system of currency is that credit and money shall be automatically adjustable. Having enforced this principle, then let them retain their freedom and never part with it.

The power which the producers, chemists, scientists, and labour always have of creating cheap money and credit, through the lowering of costs of production and the maintenance of efficiency, should never be lightly abandoned. They alone should control the rate of interest, and not the Bankers. The latter should control the issue of credit, but not the price of it. The lowering of costs of production and of rates of interest are vital to the success of any new scheme of currency, and sufficient emphasis has not yet been laid on the need of this dual effect. I draw no limitation to the rewards or profits of enterprise, and it is here that the clear distinction between the uses of money and capital is to be seen.

By stabilization I mean the elimination of a currency system which expands credit before production and causes an unnatural rise of prices, and then, after the producers have expanded production to cope with the extra demand, causes prices to fall because of the instability of credit. These tendencies are better known as "inflation" and "deflation," and in such a system the ultimate burden of loss falls on the producers and consumers.

What we need is a currency system that will reverse this procedure, namely, a currency that will expand pro rata with production (the processes) or later than production (on completion of contracts) and in no case to anticipate production. In such a system commodities would be made available for the consumers to buy, as and when they wanted them, at known predetermined prices, and would effectively check the unnatural rise and fall of prices. Such working conditions would therefore eliminate "inflation" and "deflation" and would give to producers the stabilization they ask for, that is, the right to develop a steady trade at a profit. In the new system proposed the working conditions would be stable because they would not operate inversely to the natural tendencies of production. The dual system of stability and falling prices would thus be achieved and made effective.

Can it be wrong then to ask for a currency system that will produce better and more scientific results than the present gold basis system, and so lower the burden of taxation which is the cause of the depression in all the basic industries? The Rating Bill will afford no real relief, since the burden of rates will merely be transferred from being a direct cause of industrial depression to being an indirect cause. The main portion of the burden of taxation, whether direct or indirect, must always be carried by productive industry, and this truth is not sufficiently appreciated.

This book should be read in conjunction with *The Flaw in the Economic System*, particularly Chapters XIII and XIV.

J. TAYLOR PEDDIE.

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The Flaw in the Economic System

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