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Quo Vadimus and other Economic Essays

BY

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PREFACE

I AM conscious of the fact that this book owes more to others than should, perhaps, any publication issued under the name of a single author. I have in the first place to thank my colleagues, Mr. J. H. Chapman, Miss D. P. Etlinger, Mr. F. Hilgerdt, Mr. G. Frumkin and Mr. A. Rosenborg and others, for checking the numerous figures with which I have attempted to illustrate facts or to support contentions. Indeed, to them I am mainly indebted for the actual elaboration of the various tables which the book contains. Moreover, the whole process of analysis would have been impossible had it not been for the labour which they have devoted over a series of years to constructing the foundations on which the science of international economics may one day be built.

More especially am I indebted to Sir Arthur Salter, who gave me the necessary incentive to start upon this work and the encouragement to pursue it. But for his inspiration and his unstinted help at all stages of the undertaking, this collection of essays would never have been brought into being.

I am further indebted to Professor Clay for kindly reading through and criticising the manuscript of the paper entitled "Britain and World Trade," to Dr. P. Jacobsson for similar help in connection with the essay on "Gold and Prices," and to Professor C. R. Fay for a number of criticisms which he sent me on the original draft of the essay entitled "Quo Vadimus?"

I have to express my thanks to the editors and proprietors of *The Nineteenth Century and After*, Limited, to the editor of *Index* and the *Svenska Handelsbanken*, and to the Council of the Royal Statistical Society, for permission to republish the first, third and last papers contained in this book.

Finally, I have to express my thanks to my brother, Mr. John Loveday, for reading through the whole manuscript with a critical eye and for seeing the book through the press.

GENEVA, *November*, 1930.

INTRODUCTION

THIS book is a collection of independent articles or essays, the majority of which are concerned with world economic problems. The articles were written at different dates since 1927 and do not constitute a homogeneous unity; they frequently overlap and impinge upon one another. Statements are repeated; the same facts recorded more than once; the same problems approached and then reapproached from somewhat different angles. I had thought at one time of trying to weld this miscellany into a more uniform whole. But both time and energy failed me and I decided in the end only to endeavour to render more apparent such unity of thought as the various articles possessed by bridging a gap here or there with an additional essay or an elaborated phrase.

The collection as it stands contains perhaps a greater unity of thought than of exposition. In the first article I have tried to trace what seemed, two or three years ago now, to be certain of the major post-war tendencies that had determined the economic development more especially of Europe up to the end of 1925.

In these first seven years of hectic and confused endeavour orderly development slowly and painfully emerged out of chaos. Fighting continued on the outskirts of the central area of warfare for some four years after the Armistice was signed. Demobilization was far from completed when in 1920-1 a major com-

mercial depression added new armies of unemployed to the care of States, many of which were still uncertain of their frontiers. The peace treaties could not do more than lay down the general rules on which attempts should be made to settle the vast accumulation of claims and counterclaims which the war had left, and in the earlier years, owing to the breakdown of the mechanism of public finance, settlement was rendered impossible and new claims were created. The restoration of devastated regions and reconstruction of plant was conducted in a maelstrom of prices in which calculations of profit and loss were rendered impossible. The real significance of the changes which the war had produced—the growth of industry in the Far East, South American and other former European markets, the development of New York as a financial centre, and the dependence of Europe on American capital, the excess of war plant, the self-determination of Russia—only gradually became apparent. In this welter of insecurity and doubt there stood out as fixed ideals in the minds of the peoples of Europe west of the Russian frontier, a picture—largely imaginary—of the economic organisation in 1913 and, with intense brightness, economic nationalism. Economic nationalism was the natural consequence of the hopes and sufferings of earlier years, and the pre-war economy was the only orderly economic system of which the living had had actual experience. That the two ideals were, in a large measure, in contradiction to each other was ignored. Each nation endeavoured to establish within its own boundaries a microcosm in imitation of the macrocosm which was constituted by Europe as a whole a decade earlier. To this objective all were naturally urged by the general political and

economic insecurity and doubt which existed. From external risks individual States sought safety for a time by rendering themselves, in so far as possible, self-sufficing and insulated. As a result to the insecurity, which, taking the Continent as a whole, was rather increased than diminished by this policy, was added as a major factor, restrictive of economic progress in Europe—lack of freedom. It is with these questions of lack of freedom and insecurity that this first essay is largely concerned.

But while Europe was thus insulating her national units and restricting her trade, the other Continents were making normal and certain countries exceptional progress, so that the centre of economic gravity tended to shift to an appreciable extent from the Atlantic to the Pacific Ocean and of financial gravity from London to New York.

The endeavour to reconstruct the economy of 1913 failed and an essentially different economic organization gradually evolved. The change was inevitable and was rendered more complete by a development of the technique of production which modified the whole structure of industry. The growth of motor transport, the electrification of industry and the advance in the mechanization of agriculture, together with mass production, profoundly affected industrial and agricultural states alike. This technical progress was accompanied by a concentration of the control of industry by means of the conclusion of national and international agreements for the regulation of output and prices and the allocation of markets. Political insularity was thus to some extent countered by industrial internationalism. Industrial internationalism did not, however, so much

increase freedom as permit more orderly control. Greater freedom was gradually won during the course of the decade 1920-30 by the natural decay of certain forms of construction and by the gradual awakening by States to their inevitable interdependence.

The changes in technique rendered possible a rapid growth of the production of wealth in all parts of the world immediately some order was created out of the chaos caused by war or revolution.

In the second essay I trace briefly the remarkable progress actually achieved between 1925 and the autumn of 1929. In these years a number of the impediments to international intercourse and business in Europe were removed, debts were consolidated and an agreement on reparations reached; production and trade developed with extraordinary rapidity, and developed most rapidly where recovery had previously been slowest. Currency stability was almost universally secured and the habit of saving was revived. Attention began to be diverted from problems connected with restitution and reconstruction to those which emerged from the new economy that had gradually grown up.

In the third essay I consider certain of those problems and those forces arising not from conscious social endeavour but unrelated human action, which may be likely to influence the course of development in the future. As conditions improved a change took place in demand which was due to a number of causes amongst the most important of which were perhaps the slackening in the growth of population, the change in the distribution of income and the drift of country folk to towns. As income per head increased a greater proportion of

total demand was directed to those goods and services which are required once the elementary needs of existence have been satisfied. This shift in demand affected both industry and agriculture. The wheat farmer and the manufacturer of coarser textiles suffered; the dairy farmer, the fruit grower, and those industries which cater rather for our comforts than our needs benefited.

But the whole economic community was affected by the fact that the demand for goods and services satisfying secondary needs is less stable than is the demand for the necessities of life. It roves over a wide range of choice; it is highly sensitive to changes in prosperity and in taste; it is optional and erratic. It is with the paradox of this instability of demand and the growing rigidity of the mechanism of production that this third essay is largely concerned.

In the fourth I deal with certain financial problems and more especially with two phenomena—the trade cycle and the threatened shortage of gold—the effects of which may run counter temporarily or permanently to the direction of certain of the forces discussed in earlier pages.

I have thus tried to move from the past to the present and from the gateway of the present to look out upon the horizon of the future.

The present depression has checked the growth of wealth and must postpone the solution of the problems to which the increase in individual income gives rise. It has, in addition, intensified the feeling of insecurity and doubt and the inclination of each nation to barricade itself against the rush and thrust of a changing world. The depression of 1930 will no doubt pass and be followed by another period of economic activity, but if

the supplies of gold in the near future prove inadequate, as the analysis of the ascertainable facts given in this essay seem to suggest, the rate of development may be retarded.

In the final essay of this series I deal with the peculiar situation of the United Kingdom in the new world economy which is growing up and endeavour to show that the decline of British trade has been due rather to the rigidity of the whole mechanism of national production than either to the past disorder in Europe or to currency policy. I argue that a similar currency policy adopted by other States has not, retarded progress to any comparable extent because they have been able and willing to adapt themselves to changing conditions and that our failure to secure trade has been greatest in regions least affected by the war.

At the end of the book I have appended a paper which I read before the Royal Statistical Society in 1929 on the measurement of Tariff Levels. This paper, although it deals with a subject that has rightly attracted considerable public interest, is definitely of a technical nature. The one fact about Tariffs on which agreement is likely to be reached is that their measurement is not easy; and it cannot be claimed that this paper is easy reading.

The articles (but not this last paper) are intended for the general public, not for the professional economist, and I have avoided in so far as possible the use of technical terms and those classical reservations by which the scientist endeavours to render himself immune from the attacks of his colleagues. In fact every figure quoted and every conclusion suggested might have been muffled in a silken cocoon of a thousand reservations and thought have been immeshed in its threads. The greater part of the

book is concerned with major forces influencing not simply this or that country, but groups of countries, whole continents or even the whole world; it is concerned not with the output or sales of a single factory or a single State, but with world output and world trade. These forces—like the waters of a river—are affected by the regions through which they pass. In one place their current may be clear and rapid, in another dark and sluggish. In no two places will their effects be identical or will those effects be equally apparent. But they possess a character and unity in spite of their local variations, and they possess an aggregate of power, though that power be unevenly distributed about their length. When once the existence of such forces is ascertained, their behaviour may be studied—with the aid of a telescope, not a microscope—and deductions made and lessons learnt.

In the same way may lessons be learnt from the statistics of world production and world trade. In fact the world production of no single commodity of importance is or can ever be ascertained with precision. Amongst the hundreds of thousands of single book entries by which the amount of coal raised to pit-mouth in all the quarters of the globe is recorded there is infinite occasion for error, and to such error must be added the wider inaccuracies of estimation when records are incomplete. Likewise does no single mining company know with complete accuracy the weight of the coal it raises. Ounces are ignored and hundredweights lost or gained. These losses or gains tend to cancel out unless some exceptional cause of error exists. The facts that are essential are recorded and the deductions that are essential are drawn—the fringe of error is

immaterial. For the world the fringe is longer ; sometimes it is too long. But that some fringe exists is of no insignificance to those who study the facts from the only perspective from which they are visible at all in their entirety. Not infrequently, however, the mass statistics are based on rough estimates in which the error may be serious and significant. In such cases it is essential to collect evidence from as many and as independent sources as possible and watch in what direction the accumulated evidence seems to point. The direction of the wind and its force must be judged from the clouds by those who do not possess an anemometer, and in economics exact measurement is rarely if ever possible. The statistics we employ suggest probabilities ; they do not give mathematical proofs.

The subjects or the special aspects of the general phenomena of economic development selected for consideration have all seemed to me to be important and of interest. But my choice has been largely determined by the fact that in the course of my daily work I have had to devote special attention to one particular question or another. The whole book is largely concerned with what is perhaps the central fact and paradox of economic life to-day : the accompaniment of a growing instability of demand by a growing rigidity in the mechanism of supply. To that problem is the article which constitutes part of the sub-title of this book specially devoted. But in that article I have confined myself to describing the problem as it appears in its economic setting. Its solution cannot be wholly, will not perhaps be even mainly, economic. The mechanism of production has become less flexible in Europe and Australasia (and will almost inevitably become somewhat less flexible elsewhere in the world)

because governments and their peoples have so willed it. During or since the war more than one country in Europe has buried unmourned its ideal of the liberty of the individual. A generation is growing up which has never learnt to respect it; but has been taught only to believe that the publican must be master of the sinner. As to whether this death and burial of individual liberty beneath the State, the trust, or the union, be a cause of satisfaction or regret I am in no way concerned here. But by that liberty, by a sense of individual responsibility and independence, by the personal effort and initiative which it stimulated, the changes in demand could be met. They may perhaps be met in other ways—by an attempt to capture and control demand itself or by a central control and co-ordination of the whole mechanism of production with all the political consequences that implies. The choice lies to-day, not between socialism and capitalism, but between Planwirtschaft—whatever the Plan—and liberty. To the economist Italy is, in the main, logical and that logic comprehensible; Russia is logical and comprehensible. Comprehensible and logical too is the endeavour in the United States to conquer demand and create mass psychology for the delectation of mass production—to restrict choice in order to concentrate on the production of an endless series of identical articles, to organise a life which, as one author expresses it, is no longer austere but expurgated. What is not logical is to have neither liberty nor plan, neither the flexibility which results from the free movement of the units nor centralized control. A considerable part of Europe has scarcely begun to look for a solution of its fundamental economic problems—and cannot hope to find a solution until it

decides on what social or ethical premises it desires to act. It will never find it by twisting round the precepts of the nineteenth century the red tape of the twentieth. It is because the solution of these problems depends upon social and ethical postulates that they are not discussed in the following pages. This book is concerned with the science of economics, not with the science of politics. The selection of economic problems for consideration has, as mentioned already, been determined partly by chance. To some persons the most striking omission may appear to be the almost complete absence of direct reference to unemployment. But unemployment is the manifestation of a failure to solve other problems—sometimes one, sometimes another; it is not an independent problem standing by itself. It may reflect, as it did in England between 1923 and 1929, the inevitable results of too rigid or too unco-ordinated an economic system, or as it did largely in Germany towards the end of this period, the passing effect of the reorganisation of the mechanism of production, or as it does in part to-day, a phase of the trade cycle. Certain aspects of the questions of flexibility and of the trade cycle are regarded in the third and fourth essays and some reference is made to that complex of changes which we like or dislike to call 'rationalisation.' I do not possess the requisite knowledge for treating this third subject more fully. There is, however, a further subject which appears to me of capital importance and is, or may be, bound in the closest relationship both to the questions discussed and this secondary problem of unemployment. It has been omitted because I doubt whether it is ripe for gathering; but it requires watching and some reference should be made to it here.

I argue that demand is likely to become less stable as wealth per head of population increases, and further that it shifts from consumption to capital goods and back in sympathy with variations in the rate of the growth of wealth and in the general level of prices. It is the function of the producer to anticipate these changes, and on the success with which he executes this function will the continuance of prosperity depend. But his power to influence the broad division of demand between consumption and capital requirements—or in other words to influence the division of individual income between spending and saving—is limited. Is there not a danger that in the future the growth of the production of wealth may be checked by a partial failure to spend? In recent years Europe at any rate has been short of capital and the instinct to save was weakened by war and inflation. At first sight the question may well seem paradoxical and absurd. But the means of production have been enormously improved since the war, known needs can be satisfied with far less effort than heretofore; when the machinery of production is once running, the demand which the accepted standard of living creates may be met without undue straining, and when it has been met progress must slacken or the standard of living be changed. Which will happen? Will individual habit keep pace with technical progress? Have the great mass of consumers enough imagination readily to change their way of life? Will they want to do so? These are questions with which producers in the United States have now long been concerned; questions which for instance Mr. Ford would answer in the negative failing any special effort on the part of manufacturers to stimulate demand and jostle habit. In Europe they

are perhaps not mature to-day. But it is at least conceivable that before many years are past they will be found to present a problem more serious for Europe than it will ever be for America, for in Europe habits are more deeply imbedded than in younger continents. Moreover, the tendency to underspend is very ancient. Every peasant who hoards gold underspends. The danger of hoarding has been largely overcome, but with the renewal of prosperity it may be that at any rate in certain parts of Europe—in France perhaps in particular—economic progress will be restrained by the torpor of the consumer. It is too early to judge to-day; but we should at least be awake to the possibility of this risk arising.

At first sight what I have just said may seem to be in direct contradiction with the whole line of argument running through the article entitled "Quo Vadimus?" Demand cannot be at once torpid and unstable. The contradiction is more apparent than real. If wealth per head increases demand must become more unstable after a certain standard of wealth has been exceeded. If demand remains torpid wealth per head will not increase. The producer may have to awaken the consumer; if he does so with success he must watch and pursue his vacillations.

Some persons may set a higher value on security than on development and consider that economists attach too much importance to the size of the national dividend. To such persons the facts recorded in the article on the Economic Status of the United Kingdom may present no grounds for regret or misgiving. They may argue that what is of true value emerges rather from the power of appreciation than from the capacity

to add to the number of available objects ; that what the world should really study is the mind of the consumer, and his power to appreciate what is, not the technique of production or distribution. Miss Hughes, in her study of humanism in education, quotes a passage from the writings of Luther which expresses this view with both beauty and force. "A city's increase," Luther says, "consists not alone in heaping up great treasure, in building solid walls or stately houses, or in multiplying artillery and munitions of war ; nay, where there is great store of this, and yet fools within, it is all the worse and all the greater loss for the city : but this is the best and the richest increase, prosperity and strength of the city, that it shall contain a great number of polished, learned, intelligent and honourable and well-bred citizens ; who, when they have become all this, may then get wealth and put it to good use."¹

The increase of the national dividend is in fact a means, not an end. It may be inadequate as a means to certain social ideals. But it happens to be the particular subject with which this book is concerned.

¹ Quoted in " *Citizens to be.*" M. L. V. Hughes, pp. 288-9.

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