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REVIEW.

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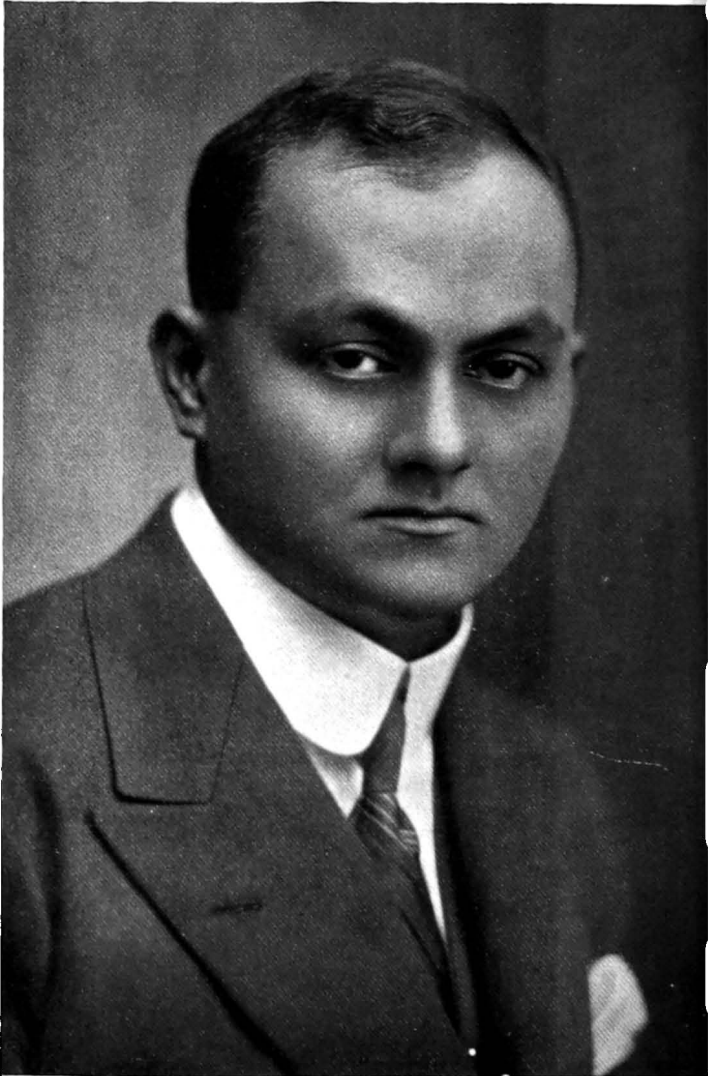
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**THE MYSTERY OF
THE TRADE DEPRESSION**



[Clifton, Bombay]

Frederic E. Holsinger.

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THE MYSTERY OF THE TRADE DEPRESSION

*An Analysis of the Collapse of Production and
Employment under the Capitalist System in the
Industrial Countries of Europe with the
Outline of a Plan for the Economic
Re-organization of Human Society
upon the Basis of Individual
Liberty, Personal Pro-
perty and Private
Enterprise*

BY

FREDERIC E. HOLSINGER

LATE MANAGING EDITOR OF
"THE INDIAN DAILY MAIL," BOMBAY

*"There must be something utterly wrong."—His Royal Highness the
Prince of Wales at the British Industries Fair on February 18, 1920.*

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PREFACE AND SUMMARY OF THE ARGUMENT

THE predominant feature of *The Mystery of the Trade Depression* is its intelligibility. There is a common notion that there are some subjects that can not be written of in intelligible English prose. That is an absurd notion. Nothing that is intelligible to a single human mind is beyond the range of intelligible expression in simple language.

Foreign trade, employment and everything that comes within the sphere of economic studies are things of real life—not metaphysical conceptions nor mathematical abstractions. However elusive the other sciences might be, Economics, the science that deals with only things that one can touch and see, must lend itself to being written of in simple English prose. Economics is the science of the common people.

The issues raised in this book are issues on which every man and every woman must give a definite and decisive verdict, and I am convinced that this book can be read and understood in its entirety by every intelligent reader of a London daily newspaper.

Few men and women realize that the peoples of the industrial countries of Europe (in common with almost the whole of the rest of mankind) are living in an economy that no one understands or even pretends to be able to understand. Every people outside Soviet Russia lives (even under Socialist governments) under the capitalist system of economy. No one has, however, to this day investigated whether the economic ends that the individual consciously seeks are forwarded or frustrated by the capitalist system. Exactly how the capitalist system functions no one is able to tell.

Everything under the capitalist system is presented to the individual as a problem, an unsolved problem—a perhaps insoluble problem. There are innumerable unsolved problems, that is to say, no one has yet succeeded in enunciating a few simple and clear principles that explain the agglomerations of facts that are daily taking place.

There is a vast complex of antagonistic policies. There is a thickening maze of irreconcilable theories, which, as Sir Josiah Stamp says, “live lusty lives in isolation.” Above all, the problems, the theories and the policies alike are stated in a jargon that no one pretends completely or even largely to understand. There could not have been more confusion in the tower of Babel than there is in the sphere of economic science today.

Capitalist practice and theory constitute a moving mosaic of shifting contradictions. Up to this day no one has found any fixed points, and the apologist or upholder of the capitalist system always ends up by disowning everything and everybody except his particular fad and himself. There is not a writer who has to this day produced a compendium of the whole mass of practices, policies and theories of the capitalist system or pursued any one theory to its logical conclusion. John Stuart Mill, the only economist who strove to reconcile the capitalist system with the economic welfare of the masses of mankind, found himself slipping into Socialism. He could see no alternative but Socialism to the contradictions of the capitalist system.

Between the practical men of industry, trade and finance and the economists there is supposed to be a vast gulf. There is no gulf. The economists have merely put into words, phrases and theories all the contradictory things that the practical men and their instruments, the politicians, do under the capitalist system. If the practical men and the politicians can not recognize their own work in the books of the economists, it implies a wholesome human revolt against the enormity and the absurdities of the capitalist system

that is of good augury. The truth is—there is no need to mince one's words—the capitalist system is reeking with intellectual dishonesty.

To expose that intellectual dishonesty, to evolve order out of that chaos, to bring communicability to that tower of Babel, to sweep away the mists, to clarify all the facts, to reveal the whole situation to all the people, to point out the only way, to ask the men and the women who do the work of the world (whether in fields, mines, mills, factories, railways, ships, aeroplanes, banks, offices, shops, theatres, or homes) to take their destinies into their own hands and to trust to common sense alone as a guide—that is the high and daring purpose of this book. I earnestly hope—nay, I firmly believe—that this book will make every man and every woman an economist. That is what every man and every woman should be.

In the early stages of the long inquiry that has resulted in the publication of this book I found it quite impossible to believe that bank managers, financiers, industrialists, businessmen, politicians and statesmen were really doing the things that they most certainly were doing and that professors of Economics, economic and financial experts and journalists were really the authors of the things that I had been reading and most certainly correctly understanding. Again and again I felt that I had made some mistake, that I had overlooked something that was fundamental. I shall not be more astonished if I see the Great Pyramid of Egypt inverted than I have been at moments during the early stages of my inquiry.

Economic welfare and trade—both internal and foreign—are realities. I have experienced no difficulty whatever in understanding or in writing of those realities in the plain and simple language in which alone one can understand anything at all. My chief difficulty throughout the whole of the inquiry has been to give some organized shape or form to the mass of contradictions that the practices and the theories of the capitalist system constitute for presentation against the background

viii *Preface and Summary of the Argument*

of the realities of economic welfare and trade. No one who finds the contradictions in the capitalist system strung upon a single thread in this book can form any idea of what that achievement has cost me in thought and labour. I firmly believe that the economists themselves will be astonished to find all their unassociated conceptions swept into a single comprehensible conspectus.

The selection of the quotations has been a most difficult task. Writers on economic subjects have nowhere shown an ability to write of one thing at a time. Every idea is inextricably mixed up with half a dozen other ideas, and I have had to drop many a telling quotation because of some complicating phrase. Despite the difficulties presented by the texts of all the writers and speakers I have quoted, the integrity of every quotation in this book is unimpeachable. All the italics—with a few unimportant exceptions—are mine. Interpolations are indicated by square brackets, [].

This book begins at the very beginning of the subject. The reader is not expected to know anything about foreign trade or internal trade or economic welfare. There is not a reference to anything on a single page anywhere in the book that has not been previously explained. There are no statistics, except a few simple tables of figures. There are only three footnotes. There are no appendices. Nevertheless, the truth of every statement of fact is demonstrated. There is no index. I have never found the index of any book that I have read of the slightest use—even in this inquiry. A reader's own notes make the only useful index. There are no foreign words (ancient or modern), except in two or three quotations. Above all, there is no mathematics. Mathematics does not belong to Economics.

Every word is used everywhere with the same meaning or signification. There are no set definitions, but every term used is explained. Every individual is referred to every time by name. Every book, every newspaper, every source of information is given its full title every time. Everything is every time referred to by the same

Preface and Summary of the Argument ix

term. There is no scope whatever for doubts or uncertainties. All I have learnt since my fifteenth year I have learnt entirely by myself. I know all the little perplexities that puzzle one at the beginning of a new subject. This book embodies over twenty years' experience of solitary study, and I, therefore, fearlessly submit it to men and women who "know nothing about "Economics."

The plan of this book is very simple. The first two chapters are introductory. In the third chapter I show that the principal purpose of the foreign trade of a country, under the capitalist system, whether it be a Free Trade or a Protectionist country, is an excess of exports over imports or a favourable balance of trade and that a favourable balance of trade implies the lending of goods and services to other countries. In the fourth chapter I prove that the depression in trade in Great Britain and the other industrial countries of Europe is not a depression in trade, but a collapse of the lending of goods to other countries or the export of capital as it is called.

The fourth chapter ushers in the main thesis of this book. This book is a complete exposure of all the fallacies and pretexts on which the export of capital has hitherto been justified. The main pretext has been that the export of capital from Great Britain and the other industrial countries of Europe gives rise to an income in the form of imports of other goods, chiefly foodstuffs and raw materials, for the support of an increasing population in Great Britain and the other industrial countries of Europe.

In the five chapters commencing with the fifteenth chapter I decisively prove that the income that Great Britain is supposed to derive from the investments of British capital in oversea lands is a financial fiction and that the whole of the thousands of millions of pounds sterling of British capital that have hitherto been exported—except for the portion that was brought back during the World War of 1914-18—has been completely lost to the people of Great Britain.

x *Preface and Summary of the Argument*

In further decisive proof of that fact I had analysed the crises in foreign exchange since 1914. After writing over ten chapters unravelling the facts of the foreign exchange crises since 1914 I decided that the material constituted a redundant proof of the central theme of this book and would too largely swell the size of this book. That material will be embodied in a separate book, *The Mystery of the Crises in Exchange*. That book will dispose of what Professor Edwin Cannan described as "the orthodox theory of the exchanges, as taught by the economists." "The orthodox theory of the exchanges, as taught by the economists," forms the basis of the reports of the Cunliffe Committee. The reports of the Cunliffe Committee, which except for one economist consisted of practical men, constitute the most authoritative post-war justification of foreign trade under the capitalist system.

In the twentieth chapter the glaring contradictions in the foreign trade policy of a capitalist state are laid bare, and in the twenty-first chapter the argument is continued in the unravelling of the Reparations problem. The solution of the Reparations problem is the acid test of the capitalist system. The whole of my investigations into the Reparations problem will be embodied in another book, *The Reparations Fraud*.

The scope of foreign trade is exhaustively explained in many chapters. In the twenty-second chapter the purpose of foreign trade is incisively brought out. The twenty-third chapter is entitled "The Myth of Mercantilism." It sweeps over the whole page of modern economic history and shows that in *The Wealth of Nations* Adam Smith attacked a fiction. "The Myth of Mercantilism" is the climax of my exposure of the illusions, absurdities, contradictions and intellectual dishonesty which form the theoretical basis of foreign trade under the capitalist system.

In seven chapters, that is, from the twenty-fourth to the thirtieth, the central theme of this book broadens and embraces the whole domain of economic welfare.

Preface and Summary of the Argument xi

I show that the export of capital—which, as proved in the first twenty-two chapters, is as disastrous to the borrowers as it is to the lenders—arises from the constitution of society under the capitalist system and that the aim, object and sole purpose to which, under the capitalist system, the increased production of a community could be applied are, and must inevitably be—not the promotion of the economic welfare of the masses of the people in every country—but the accumulation of needless fixed capital. That fixed capital, in ancient times, took the form of palaces and pyramids, and in modern times it takes the form of unwanted railways, roads, canals and telephones. Another fact definitely proved is that industrial peace is wholly impossible under, and entirely irreconcilable with, the capitalist system. In the twenty-eighth chapter I show that the establishment of Industrial Capitalism in Germany forced Germany to seek a colonial empire and that the World War of 1914-18 sprang from the necessities of organized German Capitalism. In the twenty-ninth chapter the conception of “a nation of capitalists” is demonstrated to be a deception, and in the thirtieth chapter the indictment against the capitalist system is concluded.

I can conceive of no more precise, comprehensive and decisive indictment of an economic system than the indictment that I have made of the capitalist system in this book. It is for those who uphold the capitalist system to answer that attack with the same precision, clearness and completeness or to admit the facts. There can be only an “Yes” or a “No” upon every one of the clear and definite charges in my comprehensive indictment of the capitalist system.

In the thirty-first and final chapter I outline my plan for the re-organization of human society upon the basis of individual liberty, personal property and private enterprise so as to avoid the disastrous consequences of the capitalist system. I am fully conscious of the disadvantage of submitting a constructive plan only in

xii *Preface and Summary of the Argument*

outline. It was only after much anxious thought that I finally decided to put the plan in outline in this book. I should have preferred to submit the plan in a form in which criticism would have been anticipated. The plan will be elaborated in a book, titled *The Principles of Individualism or The Individualist State*.

The plan is a very simple one. Only very simple plans can be applied to mighty tasks. The plan does not call for "a plunge into the dark." It involves no measures that have not already been thoroughly tested under the capitalist system. The instrument by which the plan is to be carried out belongs to the armoury of the capitalist system. No one can deny, however, that the plan would effect a mighty transformation in the whole constitution of human society. I have pondered and examined all the reactions of the plan, and only the task of composition stands between the production of the manuscript of the complete plan and the outline in this book. Every man of affairs—be he statesman, politician, financier—and every economist can work out the reactions of the plan for himself. I know that every reaction to the plan will be the elimination of an admitted evil under the capitalist system.

I submit the plan in outline in this book because I am convinced that this book would be incomplete without it. Even the outline of the plan shows clearly that the evils that arise under the capitalist system would be impossible under the plan and that the plan must solve the whole economic problem at a stroke, start full production and annihilate unemployment.

My inquiry has not been confined to the problems of trade and unemployment alone. I have covered the entire economic sphere. There is nothing in this book that has not been fully thought out in relation to everything else in the economic organization of society as a whole. *The Mystery of the Trade Depression* is the first of a series of works. To the principles I have enunciated in this book there are and there can be no exceptions whatever. There is not an economic problem to which I am

Preface and Summary of the Argument xiii

not prepared to offer a complete solution upon the principles enunciated in this book. There is not an economic puzzle that I can not completely unravel upon the principles enunciated in this book.

The scope of my inquiry is revealed by the titles of the series of books of which *The Mystery of the Trade Depression* is the first. Three have already been mentioned. The others are :

The Mystery of the Depression in Agriculture,
The Mystery of War Debt Magnanimity,
The Mirage of Modern Capitalism, and
America on the Road to Ruin.

This book is entirely my own work. I am, therefore, relieved of the always difficult task of thanking others for friendly assistance. The writing of the manuscript was greatly delayed by a grave illness. For my complete recovery from that illness I owe a deep debt of gratitude to Professor Doctor Paul Fleischmann of Berlin. I have to thank the publishers and the printers for getting the book through the press within six weeks.

I sincerely appeal to all earnest men and women in every land dispassionately to read this book and resolutely to examine the facts that I disclose and the principles that I enunciate. To none do I more sincerely appeal than to the practical men, the politicians, the economists and the journalists whose writings or utterances I have in this book attacked. Their responsibility begins where this book ends.

I appeal also, with no less sincerity, to the Socialists. The broad economic ideal of Socialism is the broad economic ideal of every man and woman of intelligence, imagination and feeling. That is why men and women of high intelligence, strong imagination and deep feeling, who see no hope of the realization of their idealism under the capitalist system, are drifting, in increasing numbers, into Socialism. That was the explanation of the Socialism of John Stuart Mill in his later days and that is the explanation of the Socialism of many distinguished men and women of our own time. Upon the principles and

the plan outlined in this book, I am convinced, the good Socialist and the honest individualist can shake hands and terminate an unnecessary conflict. I am willing to demonstrate that everything that the most fervent Socialist aspires to achieve under Socialism can be realized "in our time" under the plan outlined in this book, even as complete political liberty and constitutional government have been realized under a limited monarchy.

This book will prove whether the upholders of the capitalist system stand for individual liberty, personal property and private enterprise or for the economic domination of the masses of the people in every country by a small band of capitalists, who alone shall have individual liberty, personal property and the scope for private enterprise.

Of the men and the women who would sacrifice the welfare and the happiness of the masses of mankind and of womankind to the lust of power of a small group of individuals in every country I have no terror. The capitalist system has failed, and the economic organization of human society can not continue upon a declaration of complete bankruptcy. I frankly defy the "die-hard" upholders of the capitalist system to do their worst. Let them deliver their attacks. I am prepared to stand up by this book and deliver the answer.

The economic problem is vast and ghastly. The lives and the happiness of millions of men, women and children are at stake. In the noble words of a true Prince among men, "There must be something utterly wrong." The issue is grave. The issue is vital. The issue is imminent. The alternative is terrible. The reaction to the age-long dictatorship of the capitalist class will be, not Socialism, but the dictatorship of the proletariat. The battle will be fought not between Individualists and Socialists at the polls but between Individualists and Bolsheviks in blood and fury on the face of the whole earth. Communism is spreading all over the world and menaces Socialism and Capitalism alike.

Under the capitalist system the interest of the con-

Preface and Summary of the Argument xv

sumer is consistently and necessarily sacrificed to the interest of the producer. Woman is more of a consumer and less of a producer. Man is more of a producer and less of a consumer. The balance in economic life can be preserved only by a balance between the genius of Man and the genius of Woman.

The complete emancipation of Woman in Great Britain, the home of both modern political liberty and Modern Capitalism, opens a new epoch in the economic history of the human race. I rejoice that the production of this book has been possible on the eve of the first exercise by Woman in Great Britain of the political power that will now always be hers. It is Woman who has been the principal victim of the capitalist system, and it is by the hand of Woman that, in poetic justice, the capitalist system must fall.

There is, there can be, nothing in the economic problem that is beyond the grasp of an intelligent, open-minded, trained and persevering inquirer. I have served a sufficiently long apprenticeship in positions of responsibility in journalism and in business to take the measure of an undertaking and the measure of my own abilities. I have given of my best to the utmost of my will, powers and resources to this book. I know its integrity and reality. I have complete faith in its truth and soundness. I have reasons for that faith. For nearly three years, in many lands, I have given my days and my nights solely to this book. This book is no arm-chair "contribution to the subject." This book is no essay "written in the intervals of business." This book is no by-product of a holiday. This book is a definite and decisive challenge which calls for a definite and decisive answer.

This book would have lacked reality had I sought to avoid identifying the various political parties in Great Britain with the theories and practices that I have attacked, and in writing this Preface I can not pretend to be unconscious of the fact that this book will be published within four weeks of a General Election, in which (upon

the unanimous testimony of all the political parties) the fundamental issue will be the issue that is the subject of this book.

Every one of the political parties of Great Britain, including the Socialist party, has admitted in the most definite terms that it has no permanent solution of the problem of unemployment and restricted production. In other words, not a single party undertakes to eliminate human poverty. The Right Honorable David Lloyd George, as the leader of the Liberal Party, has, however, come forward with an economic programme that he claims will temporarily relieve unemployment. As he has expressed it, he undertakes to reduce unemployment to "normal proportions" within twelve months and to give the economic system a stimulant.

The economic programme of Mr. Lloyd George is a programme for the accumulation of needless fixed capital—unwanted roads, canals and telephones. It is the quintessence of Capitalism. It represents a desperate attempt to conceal the failure and the fundamentally false basis of the capitalist system. The economic programme of Mr. Lloyd George has not, as the Socialists claim, been derived from the programme of the Socialists. It is a programme that has been borrowed from Germany. The programme that Mr. Lloyd George has submitted to the people of Great Britain is thus a programme that has failed to solve the economic problem in Germany where there are two and a half million unemployed today.

The economic programme of Mr. Lloyd George is the work of Professor Maynard Keynes, who has, in his published works, admitted that the accumulation of fixed capital, *by the sacrifice of the economic welfare of the working classes*, is the main function of the capitalist system. The economic programme of Mr. Lloyd George will force up the price level and effect the maintenance of a few hundred thousand of those now unemployed by robbing those who are now employed. It will complete the economic ruin of the people of Great Britain. There is no fundamental difference between the

Preface and Summary of the Argument xvii

economic programme of Mr. Lloyd George and the building of the Pyramids in ancient Egypt. If the Liberal Party is returned to power at the General Election, the Liberal Party will still further fasten the curse of Egyptian helotry upon the masses of the people of Great Britain.

The principles upon which the programme of Mr. Lloyd George is based are the direct antithesis of the principles enunciated in this book. That is a fact that I must face. I do not in the least shrink from it. If the conflict between the principles enunciated in this book and the programme of Mr. Lloyd George has to be definitely established, I am perfectly willing to meet Mr. Lloyd George in a public debate on either his programme or the propositions I have submitted in this book—whichever he may prefer.

I have written this book with a deep sense of civic duty. It is in the firm faith that centuries of human history will date from the publication of this book that I submit it to the judgment of the world.

FREDERIC E. HOLSINGER.

Le Raincy, France.
April 11, 1929.

P.S.—Any communications addressed to me to the care of the publishers will be received by me at my address in London.

PRELIMINARY REMARKS

The Case for an Inquiry into the Present Economic Situation

For eight years the world has contentedly accepted the view that the enforced contraction of production in mines, mills and factories and the unemployment of millions of willing workers in the industrial countries of Europe since the autumn of 1920 arises from a decline of the foreign trade of the industrial countries of Europe. There has been a decline of the export trade, but there has been no decline of the import trade of the industrial countries of Europe since the autumn of 1920. The import trade of Great Britain, for example, is greater today than it was before the World War of 1914-18. ✓

The maintenance of full production and of full employment in the industrial countries of Europe is, according to economic theory, entirely dependent upon a large export trade. That belief is not held only by those who claim that the capitalist system represents the most desirable economic organization of human society. One of the principal measures taken by the Labour or Socialist Government of the Right Honorable Ramsay Macdonald in Great Britain in 1924 was the appointment of a large committee of most able men to investigate the decline of the export trade.

The first question to which the attention of the Committee should be directed is the present position of British overseas trade and the prospect of British participation in the markets of the world being such as to ensure sufficient and continuous employment and a satisfactory standard of living in this country.—
Memorandum accompanying terms of reference to the committee of inquiry of which Sir Arthur Balfour was chairman.

The primary purpose of foreign trade is to effect the exchange of the products of one country for the products of other countries. That function of foreign trade is illustrated in the import of wheat and wool from Australia into Great Britain and the export of iron and steel goods from Great Britain to Australia. Without such an exchange of products between one country and another, life would be barely supportable or extremely uncomfortable in many parts of the world. Therefore, it is very truly said that the foreign trade of a country is vital or very nearly vital to the existence of its population.

In addition to effecting the exchange of certain classes of goods for other classes of goods, foreign trade is expected "to ensure sufficient and continuous employment and a satisfactory standard of living" in a country. It is the belief that the maintenance of those conditions depends entirely upon foreign trade that is responsible for the vast importance attached to a large foreign trade. When the expression, "We must export to live," for example, has been employed at international conferences to describe the economic situation of a country like Great Britain or Belgium, it is the secondary purpose of foreign trade that has been implied.

It is generally supposed that foreign trade has acquired its present importance as a factor in the economy of the industrial countries of Europe only since the increase of population in the nineteenth century. That is not correct, for, even in the eighteenth century, the opinion prevailed that foreign trade was the most important factor in the economy of a country. Adam Smith wrote in 1776:

The inland or home trade, the most important of all, the trade in which an equal capital affords the greatest revenue, and creates the greatest employment to the people of the country, was considered as subsidiary only to foreign trade.—"*The Wealth of Nations*," *Book IV, Chapter I* (*Cannan's Edition, Volume I, P. 401*).

That might as justly be said of the present day 'as of

the days of Adam Smith. In 1776, the population of Great Britain was less than ten millions, and foreign trade was an utterly insignificant factor in the economy of Great Britain.

In the eighteenth century foreign trade was of so little importance to the majority of the inhabitants of England, that, but for some importation of wheat, the whole might have been destroyed without making any appreciable change in the habits or wealth of the people.

The rich would have been deprived of some luxuries, the poor of very few, a small class of traders would have been affected and an unimportant branch of revenue destroyed; but no other result would have followed. . . .

Till the nineteenth century we were an agricultural nation, even exporting corn to the Continent. . . .

Before 1790 the only foreign goods we imported on a large scale were silk, hemp, wine and tropical produce.

Till the growth of the cotton trade, which may be perhaps considered to date from 1750, woollen cloth was our only export of importance.—*Arthur L. Bowley*, "*England's Foreign Trade in the Nineteenth Century*," Pp. 5-7.

Even since the Industrial Revolution the production of goods for export to foreign countries has provided employment only for a small part of the population of a country.

Great Britain exports a far larger percentage of its total production than any other country. Nevertheless, the exports of Great Britain comprise only twenty per cent. of its total agricultural and industrial production. Much less than one-fifth of its labour power is employed in the production of goods for export. If the whole of the one and a half million unemployed in Great Britain are to be absorbed in the production of goods for export to other countries, the exports of goods, which now amount approximately to £700 millions in value per year, would have to be increased by a great deal more than fifty per cent.

When a country sends goods to other countries, it must receive some corresponding advantage. For example, the purpose of the export of manufactures from

Great Britain, it is asserted, is the import of foodstuffs and raw materials for the support of the population of the country. That, however, as already indicated, is not the sole purpose that the expansion of exports from the chief industrial countries of Europe is expected to fulfil. That is the paradox of the present economic crisis.

The foreign trade of Great Britain during the past hundred years has annually shown a large excess of exports over imports. The excess of exports over imports in 1928 was £149 millions. The Right Honorable Reginald McKenna, Chairman of the Midland Bank, has thus described the foreign trade position of Great Britain :

Year by year England produced more than she either consumed herself or could exchange for the products of other nations.—*Address to the forty-eighth annual convention of the American Bankers' Association, New York, October 5, 1922.*

The industrialization of the continental countries commenced about fifty years ago, and since that time an excess of exports has been a feature of the trade of Belgium, France and Germany. They, in common with Great Britain, have endeavoured to maintain full production in their industries and full employment for their peoples upon the basis of an excess of exports.

Since the industrialization of the United States of America—especially since the World War of 1914-18—the United States of America has developed a large excess of exports over imports, and the maintenance of full production and full employment are as dependent in the United States of America today upon an export surplus as in any country in Europe. Mr. Herbert Hoover, the President of the United States of America, has declared :

I believe that we have today an equipment and a skill in production that yield us a surplus of commodities for export beyond any compensation we can usefully take by way of imported commodities.—*"The New Republic," December 29, 1920.*

The United States of America has not been able

always to maintain full production or always to provide full employment for its people. The works of Messrs. William Trufant Foster and Waddill Catchings of the Pollak Foundation for Economic Research have brought to light in vivid colours the enormous losses that the American people have sustained by the recurrence of periods of economic paralysis.

During the past seventy-five years there have been several acute production and unemployment crises in the United States of America, and since 1918, that is to say, since the economy of the United States of America has been more dependent than before upon an export surplus, the heaviest industrial and trade depressions have been experienced in that country. During a great part of 1920 there were approximately five million unemployed workers in the United States of America, and in 1928 the number of unemployed was estimated at between one and a half millions and four millions.

Density of population and scantiness of natural resources, therefore, can not be held responsible for production below capacity and unemployment in the industrial countries of Europe, for if those two factors were responsible, production below capacity and unemployment would not be dominant features in the economic situation of the United States of America, of Australia and of Canada. Australia and Canada are countries with scanty populations and abundant natural resources. The cause of production below capacity and unemployment must lie in conditions or in institutions that the countries of the New World share with the countries of the Old World.

The corner stone of the present economic system in both the Old and the New World is the export surplus, and there is thus a clear case for an inquiry :

Firstly, whether an excess of exports over imports promotes the economic welfare of the masses of the people of a country, and

Secondly, why full production and full employment

in the industrial countries of Europe should be dependent upon an excess of exports over imports.

The case for a comprehensive inquiry into foreign trade and the entire capitalist system is reinforced by three facts. The first fact is that there is complete and admitted ignorance of the character of foreign trade and of the functioning of the capitalist system among all classes of the people in every country. Nowhere is that ignorance more complete than among the merchants who conduct international trade. The second fact is that the economists, upon whom lies the responsibility of investigating and explaining economic phenomena, have, during the past eight years, been entirely at a loss for an explanation of the causes of the present crisis. The third fact is that there is no organization of any kind engaged upon the examination of the mighty problem with which the peoples of the industrial countries of Europe are faced.

In March, 1928, the Association of British Chambers of Commerce published a memorandum on the overseas balance of trade, prepared by Mr. Arthur Michael Samuel, Financial Secretary of the British Treasury. The memorandum was a response to a request that Mr. (now Sir) Gilbert Vyle, President of the Association, had made in the following terms :

It would be helpful to me and to all who are interested in this subject if you would kindly write for us a little pamphlet explaining in non-technical terms the meaning of the balance of overseas trade, how it is arrived at, and any other points that will make the subject more lucid than it is at present to the non-expert mind.—
“*The Times*,” *March 27, 1928.*

It is, surely, very remarkable that the President of the Association of Chambers of Commerce of the first trading country in the world should feel that he and “all who are interested in the subject” need an exposition of “the meaning of the balance of overseas trade” in “non-technical terms.” One would be inclined to suppose that the members of chambers of commerce would know

and be able to interpret all the facts of international trade and that the technical terms employed would be well within their comprehension. The frank terms of Sir Gilbert Vyle's letter show that that is not the position.

Adam Smith described the merchants of his time as "those who were supposed to understand trade," and the parliaments, councils of princes, nobles and country gentlemen whom the merchants used to address when they desired a change in the laws regarding trade as those who were "conscious to themselves that they knew nothing about the matter."

Adam Smith says :

That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen, as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country, was no part of their business. This subject never came into their consideration, but when they had occasion to apply to their country for some change in the laws relating to foreign trade.

It then became necessary to say something about the beneficial effects of foreign trade, and the manner in which those effects were obstructed by the laws as they then stood. To the judges who were to decide the business, it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much more as it otherwise would do. Those arguments, therefore, produced the wished-for effect.—"*The Wealth of Nations*," Book IV, Chapter I (*Cannan's Edition*, Volume I, Pp. 400-1).

Since the economic conditions known as the depression in trade set in in Europe in 1921, merchants, in common with other people, have argued, as merchants used to do in the days of Adam Smith, that foreign trade brings wealth into a country and that laws at home, especially taxation laws, and laws abroad, especially tariff laws, have "hindered it from bringing so much as it otherwise would do." Of the balance of trade—"this highly important subject," as Sir Gilbert Vyle calls it in his

letter to Mr. Samuel—even the members of the Association of British Chambers of Commerce are “conscious “to themselves that they know nothing about the matter.”

The attitude of the economists during the past sixty or seventy years towards the balance of trade is unmistakably revealed by Professor Alfred Marshall in his book, *Money, Credit and Commerce*, which was first published in 1923, that is, over two years after the present depression in trade had set in. In a volume of 350 pages only ten pages are devoted to the subject. He apologizes for introducing it at all. He commences the chapter as follows :

This chapter is required for completeness. But it is concerned only with matters that are familiar to many business men.—
P. 130.

According to Professor Marshall, whose works have a higher authority than the works of any other economist, the balance of trade was so thoroughly examined by English statesmen and economists immediately after the Napoleonic War that “but little ground of first-rate importance “was left to be covered by their successors.” (*Money, Credit and Commerce, P. 135.*)

Professor Marshall's contemptuous indifference to the balance of trade as a factor in the economy of a country is by no means singular. One searches the writings or speeches of Cannan, Cassel, Foster and Catchings, Irving Fisher, Hawtrey, Hobson, Maynard Keynes, Reginald McKenna, Pigou, George Paish, Josiah Stamp, Taussig, Hartley Withers and others in vain for the slightest trace of a more scientific attitude of mind.

Both the balance of trade and the whole subject of foreign trade have been completely neglected in economic literature. There are not half a dozen volumes, devoted either entirely or in considerable part to the economics of foreign trade. Since the works of Adam Smith, Ricardo and John Stuart Mill there has been no investigation whatever of the circumstances in which foreign

trade is beneficial to a country. It is assumed that foreign trade must, in all circumstances, promote the economic welfare of a country. In those works that are generally entitled, *Principles of Political Economy*, all the space devoted to foreign trade is a brief chapter or two. The works of Marshall, Nicholson and Taussig are examples. Professor Gustav Cassel gives no definite place to foreign trade in *The Theory of Social Economy*.

The economists have made hardly any contribution at all to the solution of the economic problem of the past eight years. Almost the only works that have been published on the subject are those of Messrs. Foster and Catchings of the Pollak Foundation for Economic Research, *The Economics of Unemployment* by Mr. J. A. Hobson, *The Road to Prosperity* by Sir George Paish and the Memorandum submitted by Professor Gustav Cassel to the World Economic Conference held at Geneva in May, 1927, under the auspices of the League of Nations.

To the lurid interrogation inscribed upon the face of capitalist civilization by the long and lengthening shadow of millions of unemployed the theoretical exponents of Modern Capitalism have vouchsafed not merely no satisfactory answer but hardly any answer at all. That failure, amazing as it is, is rendered still more amazing by the fact that the present economic situation constitutes a paralysis of the production and distribution of wealth. For two hundred years economists have produced treatises, which, it has been claimed, explain the production and the distribution of wealth. Face to face with the paralysis of both the production and the distribution of wealth in the industrial countries of Europe during the past eight years, however, the economists have preserved almost complete silence.

Economic research has been largely subsidized out of public funds and the public-spirited donations of private citizens. The economists have, therefore, apart from the moral responsibility involved in their pursuits, a distinct obligation to the community in the hour of its distress. But since the depression set in in 1920

employers and employees alike have looked in vain for enlightenment from the citadels of economic learning. If the investigation of economic truth rests with the Professors of Economics in the Universities of Europe and America, that trust has been shamelessly betrayed. A lecture upon the production and the distribution of wealth in any university today can possess no reality. It is a stupid farce, an indecent mockery. If the economists are unable—and they confess they are unable—to explain the present economic paralysis, the time has certainly arrived for them to abandon their rôle as the economic instructors of mankind.

More incomprehensible than the failure of the economists to explain the cause of the present economic situation is their attitude towards the problem—as disclosed by the following :

The great slump, though there are signs of improvement, is not yet (1923) over. *The fundamental thing needed to dissipate it, over and above all palliative measures, is, if our analysis is right, a recovery of business confidence.*

As Dr. Marshall has said in another context, the greater part of the evil associated with an industrial depression “could be removed almost in an instant if confidence could return, touch all industries with her magic wand and make them continue their production and their demand for the wares of others.” (“*Principles of Economics*,” P. 711.). . . .

The moral is plain. Nearly five years ago the war ended. Since then there has been an *interregnum* of neither war nor peace. Let the *interregnum* also end.—Professor A. C. Pigou, “*Essays in Applied Economics*,” P. 40.

~ It is many years since the “*interregnum* of neither war nor peace” has ended, but the slump remains. Professor Pigou has, therefore, had ample time to decide whether his analysis was right or not. But neither Professor Pigou nor any of his fellow-economists in the seminaries of economic learning and research have brought forth any explanation of the failure of business confidence to emerge from its secret enclaye “touch all industries with her magic wand and make them continue

“their production and their demand for the wares of others.” The wisdom of the high priests of Modern Capitalism has departed, and their sense of the ridiculous too.

Sir Josiah Stamp is an economist, financier and statistician, whose opinions carry as much weight as those of any other man in the economic sphere. In the Foreword to Sir George Paish's book, *The Road to Prosperity*, he expresses the view that the present economic situation presents intellectual problems beyond the capacity of a single human mind. Sir Josiah Stamp writes :

It seems impossible for any one person to have a clear grasp of them all. It needs an army of skilled observers, led and generalised by a group of penetrating analytical thinkers, to cope with the merely intellectual problem as a whole satisfactorily. Neither the numbers nor the equipment exist, for there only are a mere handful of writers and thinkers who have a new post-war apparatus of thought and principle sufficiently incisive for the purpose.

In the same Foreword Sir Josiah Stamp stated that hopes then rested on “two potent possibilities—the “Economic Section of the League of Nations and the “International Chamber of Commerce.” The International Chamber of Commerce has already disappointed whatever hopes it might have excited at the beginning of 1927, for at the session in Stockholm in the same year the International Chamber of Commerce demonstrated that it interpreted its function as being merely the expression of the views of the merchants who constitute its membership. Moreover, the collective wisdom of the International Chamber of Commerce can not transcend the wisdom of constituent members like, for example, the Association of British Chambers of Commerce.

The Economic Section of the League of Nations, which has been in existence now for close on a decade, has every advantage with which any such organization could be endowed. The Economic section of the League of Nations has been able to draw upon all the sources of information and upon all the economic talent

of the world and has had abundant funds at its disposal. The Economic Section of the League of Nations recognizes that it has precisely such a responsibility as Sir Josiah Stamp has indicated. What has it achieved?

In May, 1927, after twenty months of special preparation, a World Economic Conference was held at Geneva under the auspices of the League of Nations. The only result of the labours of the conference was a series of resolutions, embodied in a report, which expressed in terms of doubt and hesitation, the opinion—an opinion unsupported in the report by facts or arguments of any kind—that a reduction in customs tariffs was calculated to effect an improvement in the economic situation of the whole world. The recommendations of the conference were “accepted” by several countries but were carried out by none, and a year after the conference had ended it was solemnly noted in the records of the League of Nations that the World Economic Conference of May, 1927, had achieved nothing.

The World Economic Conference of May, 1927, made no investigation whatever of the general economic situation. The documentation prepared by the Economic Section of the League of Nations, under the direction of the Preparatory Committee, contained no analysis of the general economic situation and is a monument of un-directed, uncorrelated and objective-less labour. The delegates to the conference found no use for the documentation, and the Economic Section of the League of Nations did not even expect the delegates to the conference to read the documentation.

The Preparatory Committee of the World Economic Conference prepared neither a programme of investigation nor an agenda of any kind for the conference. At the first plenary session of the conference the delegates occupied themselves, during four days, in airing individual opinions. The “general discussion,” as the speech-making was described, was led by Professor Gustav Cassel. The theme of his speech was the export of goods on credit from the industrial countries of Europe to the

new lands like Australia and the Argentine. When Professor Cassel, subsequently, pressed his views upon the conference he was told that the theme of the great oration with which he had opened the "general discussion" at the first plenary session of the conference had been entirely outside the scope of the conference! The president of the conference had, however, not called Professor Cassel to order.

No attempt was made to reach any conclusions or to formulate any resolutions upon the basis of the speeches delivered in many tongues at the first plenary session. There was neither an analysis of the statements of facts made nor a synthesis of the innumerable conflicting theories propounded. The striking of the clock abruptly terminated the speech-making, and the delegates to the conference were, forthwith, shepherded into three commissions of Commerce, Industry and Agriculture—no one knew why. Once within a commission, a delegate was confined to the special subject referred to the commission, and, therefore, the examination of the general economic situation was effectively barred after the fourth day of the first plenary session of the conference.

The two commissions on Industry and Agriculture accomplished absolutely nothing, and the truth was frankly admitted. The commissions on Industry and Agriculture had been set up by the organizers of the World Economic Conference of May, 1927, for no other purpose than to create the false impression on the world that the conference was a general economic conference. The World Economic Conference of May, 1927, was not a general economic conference.

There was no analysis of even the problem of high protective tariffs either in the documentation of the World Economic Conference of May, 1927, or during the proceedings of the conference or of the Commerce Commission. The recommendations of the World Economic Conference were based upon a document of forty pages—that is a document shorter than the report of the conference—submitted by the Trade Barriers

Committee of the International Chamber of Commerce, and that document consisted solely of proposals for the removal of tariffs and other barriers to the import of goods into the various trading countries *based upon the assumption that the economic situation had been caused by high tariffs.*

Neither the International Chamber of Commerce, nor the Economic Section of the League of Nations nor any of the experts and other delegates to the conference produced any kind of document, evidence or argument that even claimed to show that the World economic situation had been caused by high customs tariffs. No one can pretend to know how the World Economic Conference of May, 1927, came to the conclusion that the International Chamber of Commerce was right in its view that the world economic situation arose out of high customs tariffs.

The Tariff Barriers Committee of the International Chamber of Commerce submitted a Preliminary Report to the Preparatory Committee of the World Economic Conference of May, 1927. An application that the present writer addressed to the central office of the International Chamber of Commerce in Paris for a copy of the Preliminary Report elicited the following startling disclosure :

The preliminary report to which you refer was never published and it only exists here in manuscript form.

The world will hardly credit the fact that, although the Economic Section of the League of Nations had been engaged for twenty months in preparing and printing documentation for the World Economic Conference of May, 1927, the World Economic Conference possessed absolutely no documentation at all in support of the recommendations that it actually made. The achievement of the International Chamber of Commerce in persuading the World Economic Conference of May, 1927, to adopt the recommendations of the Tariff Barriers Committee of the International Chamber of

Commerce surpasses any of the recorded achievements of secret diplomacy before the establishment of the League of Nations.

If the recommendations of the World Economic Conference of May, 1927, were to possess any reality, it was indispensable that the economic position of the countries that were to carry out the recommendations should have been examined and the applicability of the recommendations to each country demonstrated. The conference did not, however, consider whether the recommendations it made were equally applicable to debtor countries (that is, countries that had borrowed money from other countries and had to pay interest on those borrowings) and to creditor countries (that is, countries that had lent money to other countries and had to receive interest on loans), to countries that had to pay Reparations and to countries that had to receive Reparations.

The World Economic Conference of May, 1927, has thus clearly demonstrated that there can be no hope whatever of the Economic Section of the League of Nations impartially and intelligently investigating either the present economic problem or any other economic problem, even with the aid of international conferences. The international financial and economic conferences that the League of Nations has already organized have proved unredeemed and most expensive failures, and the literature that the Economic Section of the League of Nations has hitherto produced is chiefly notable for the jibes which it has excited in the Press. The League of Nations will make itself only an object of deserved derision and unmitigated contempt among the peoples of the world by organizing any more international financial or economic conferences.

Upon the hypothesis of Sir Josiah Stamp, therefore, there is not even the prospect of a solution of the present economic problem. He can not be accused of mere pessimism. In fact, he is entitled to respect for the courage and persistence with which he has sought a clue

to the solution of the economic problem and the sincerity and candour with which he has expressed his conclusions at every stage of his inquiries.

In every one of the industrial countries of Europe and in the United States of America both capitalist and socialist economists are, admittedly, equally unable to explain the collapse of the production and the distribution of wealth under the capitalist system and to offer a practical solution of the mighty problem of unemployment. Capitalist economists are looking to the solution of the unemployment problem by the removal of the present army of unemployed by death. In other words, the 250,000 miners and their five or six hundred thousand dependents must be left to perish upon "the derelict areas" of Great Britain like the entrapped crew of a sunken submarine whose rescue is impossible. Against the reappearance of a new army of unemployed, which the economic system might produce, the economists point with confidence—but without a palliating expression of a sense of shame and humiliation—to the diminishing birth-rate.

The economists have, unconsciously, made a formal declaration of the bankruptcy of the capitalist system. Under the capitalist system, Man has been beaten in his long struggle against Nature for a subsistence and must now accept the consequences—reduction of population by death and limitation of population by birth-control. If the capitalist system presents mankind with no escape from the most dreadful poverty and the direst misery except through the door of death, the capitalist system has falsified all the hopes that mankind has reposed upon it and must give place to another economic order—be it individualist, socialist, or communist.

The readiness with which economists have accepted birth-control as a means of solving the economic problem discloses astounding ignorance of the extent and the wealth of the natural resources of the world and of Man's power to exploit the natural resources of the world. The economists lack even a sense of perspective.

It has been scientifically established that Brazil—and Brazil is the third of the three largest countries in the world—is capable of supporting a population of 2,000 millions, that is, a greater population than the population of the whole world today. Half the inhabitable parts of the world has no population at all, and the other half of the inhabitable parts of the world has not half the population it could support. The overpopulation of the world is a myth. Malthus was a very ignorant man.

Now, the failure of both individual economists and collective organizations to solve the present economic problem does not prove, as Sir Josiah Stamp has argued, that it is an intellectual problem beyond the grasp of a single human mind. The most superficial examination of the subject brings to light not only that there has been no proper investigation of the problem but also—what goes to the root of the whole mystery—that the problem has been attacked only through a maze of contradictory theory.

Neither Sir Josiah Stamp nor any other inquirer into the economic problem has approached the economic problem with “a new post-war apparatus of thought and principle.” Not one of them has attacked the problem even in the spirit of scientific inquiry or complied with the most elementary rules that searchers after truth in other fields have observed. In an address on the economic situation that Sir Josiah Stamp delivered before the Birmingham Chamber of Commerce on October 6, 1927, he quoted a saying of Napoleon, “Get your principles right, and then it is a mere matter of detail.”

“A new post-war apparatus of thought and principle” is by no means an acquisition beyond the reach of any open-minded man who honestly sets himself to discover what is wrong in the economic system. Every investigation into the economic problem hitherto made from the individualist standpoint has failed, because every investigation has been based upon the wholly unwarranted and absolutely fatal assumption that the

capitalist system is the only economic system that can ensure individual liberty, personal property and private enterprise.

Those who have been impressed by the ideals of Socialists and Communists have made the no less unwarranted and no less fatal assumption that the economic welfare of the masses of mankind is wholly irreconcilable with individual liberty, personal property and private enterprise, because, as is certainly true, the capitalist system has proved to be irreconcilable with the economic welfare of the masses of mankind.

Individualism stands in danger today of being overwhelmed by Socialism, Communism or Anarchy, because Individualism is identified with Capitalism. Capitalism is only one form—the most primitive form—of Individualism. It is a heritage of the Stone Age.

CONTENTS

	PAGE
PREFACE	v
PRELIMINARY REMARKS :	
The Case for an Inquiry into the Present Economic Situation	xix
CHAPTER	
I. FOREIGN TRADE :	
The Constituent Elements	1
II. THE BALANCE OF TRADE :	
The Meaning of an Excess of Exports or an Excess of Imports	7
III. THE EXPORT OF GOODS ON CREDIT :	
The Main Objective of the Foreign Trade Policy of a Modern State	18
IV. EUROPE'S LOST TRADE :	
A Decline of the Lending, Not of the Selling, of Goods	28
V. THE IMPORT OF CAPITAL FROM EUROPE BY THE COLONIAL WORLD :	
Inability of the Industrial Countries of Europe to Absorb Colonial Products the Cause	42
VI. THE NATURAL LIMIT UPON EXPORTS :	
The Parallel Competition of the Industries of a Country	55
VII. THE CONDITIONS OF INTERNATIONAL TRADE :	
The Problem of Foreign Competition in the Home Market	69
VIII. THE IMMEDIATE EFFECT OF THE EXPORT OF GOODS ON CREDIT :	
The Masses of the People are Robbed of the Goods They Need	79

CHAPTER		PAGE
IX.	THE CASE FOR THE EXPORT OF GOODS ON CREDIT : An Examination from the Standpoint of the Interests of the Exporting Country	89
X.	HOW THE EXPORT SURPLUS CREATES EMPLOYMENT : The Phenomenon of the Cyclical "Depressions of Trade"	102
XI.	THE NATURE AND PURPOSE OF CAPITAL : The Misconceptions of the Economists	112
XII.	THE DEVELOPMENT OF THE NEW LANDS—I : The Pretext that Exports of Capital Promote Emi- gration	127
XIII.	THE DEVELOPMENT OF THE NEW LANDS—II : The Export of Capital from the Industrial Countries of Europe Destroys Markets in the Colonial World	137
XIV.	THE DEVELOPMENT OF THE NEW LANDS—III : The Harvest that has Sprung from the Seed of Exported Capital	152
XV.	THE INVESTMENTS OF BRITISH CAPITAL IN FOREIGN LANDS : An Examination of the Claim that it Produces an Income in Goods	162
XVI.	THE COLLECTION OF INTEREST DURING THE WAR : Financial Fictions Replaced by Economic Realities	170
XVII.	THE IMPORT OF INTEREST IN GOODS BETWEEN 1924 AND 1926 : "Alice in Wonderland Finance" In the City of London	177
XVIII.	THE RE-EXPORT OF INTEREST : The Arithmetical Illusion of Modern Capitalism	190
XIX.	THE NEMESIS OF MODERN CAPITALISM : The Ghastly Tragedy of Compound Interest	200
XX.	THE IMPORT OF INTEREST IN GOODS : Firmly Opposed by the Exporters of Capital in Great Britain	212
XXI.	THE RECEIPT OF REPARATIONS FROM GERMANY : The Post-War Nightmare of the Capitalist System	222
XXII.	THE PURPOSE OF FOREIGN TRADE : The Contradictions Involved in the Capitalist System	236

Contents

xxxix

CHAPTER		PAGE
XXIII.	THE MYTH OF MERCANTILISM : The Movement of the Precious Metals in Inter- national Trade	249
XXIV.	PRODUCTION UNDER THE CAPITALIST SYSTEM : How the Consumption of Goods by the Masses of the People is Repressed	268
XXV.	THE ROBBERY OF THE WAGE-EARNERS : Essential to Expansion of Production under the Capitalist System	279
XXVI.	"CA CANNY" A COROLLARY OF CAPITALISM : The Miscarriage of Mr. Henry Ford's Principles and Policies	294
XXVII.	THE EXPANSION OF PRODUCTION UNDER THE CAPITALIST SYSTEM : The Accumulation of Unnecessary Fixed Capital the Sole Purpose	305
XXVIII.	THE TRAIL OF THE STEEL RAIL : The Responsibility of German Capitalism for the World War of 1914-18	316
XXIX.	THE LURE OF A NATION OF CAPITALISTS : Re-Distribution of Wealth Can Not Be Secured under the Capitalist System	325
XXX.	THE GOVERNING CONDITION OF PRODUCTION : The Fundamentally False Basis of the Capitalist System	337
XXXI.	THE ECONOMIC RE-ORGANIZATION OF HUMAN SOCIETY : The Means of Effecting the Equitable Distribution of Wealth	351