

# THE WORLD IN AGONY

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**THE  
GOLD STANDARD  
AND THE CRISIS.**

**By C. RALPH CURTIS, B.Sc.(ECON.),**

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**— LONDON —**

# THE WORLD IN AGONY

AN ECONOMIC DIAGNOSIS

BY

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WITH FOREWORD BY

SIR ARTHUR SALTER, K.C.B.



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1932

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To  
M. D. P.  
AND  
PHILIP

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## FOREWORD

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DR. PLUMMER's theme is the central defect of our economic system. This system is increasingly incapable of translating increased productive capacity into equivalent purchasing capacity. Man's skill and the natural resources at his disposal are therefore largely unutilised ; our standard of living is much lower than it need be. It is not, of course, human demand, but effective economic demand, that lags behind. What proportion of the world's population would not live at a higher standard if it could afford to ?

Somehow, then, we need to increase consuming power so that it can utilise our productive machinery and employ our involuntarily idle. But how to do it ? If we increase State subsidies or expenditure on social insurance, we sooner or later come to the evils of excessive taxation, unbalanced budgets and all the consequent troubles so familiar to us in this last year. If monetary inflation is attempted the stimulus is temporary and the point is soon reached at which purchasing capacity is reduced instead of increased. If an individual employer raises wages, the increased consuming power of his employees is expended over a wide range, but the increased cost is concentrated on himself, and he therefore loses his power to compete. If the increases are general throughout the employers of a country, the same difficulty arises in external competition. The method is thus only effective in proportion as it is

applied over as wide a range of industries as those which are benefited by the increased demand. The same is true if adjustment is attempted by reduction of hours instead of, or as well as, increase of wages.

The conclusion is clear. Unless the great benefits that come from international trade are to be lost, we want not only national policy but world policy; not only national government but a world order.

This is the theme which Dr. Plummer urges persuasively, with the support of illustrations and statistics collated from a wide range and skilfully presented. His is an interesting contribution to the central problem of our day.

ARTHUR SALTER.

## PREFACE.

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OWING to the magnitude of the economic muddle in recent years a great many people are now in a frame of mind to reconsider the present economic and social system and their own attitude towards it. They can see with their own eyes that something is seriously wrong. They can see abject poverty in the midst of abundance. They can realise the absurdity of raising an outcry because commodities are too cheap. Some are asking why it should be necessary for prices to rise before we can hope to see the restoration of economic prosperity, and most people are astonished and appalled when they hear of the wholesale deliberate destruction of crops in North and South America and elsewhere. The simply-sketched economic diagnosis contained in this essay goes to the root of the disorders of which all such anomalies, absurdities and apparent contractions are the symptoms.

Here is a parable—A ship, crossing some great ocean, sprang a leak. She was equipped only with a hand-pump, at which it was imperative that men should toil continually if the ship, crew and cargo were to be brought safely into port. The captain, knowing his crew, announced (in seafaring language) that any member of the crew who failed to work conscientiously at the pump would receive no rations. Later, during another voyage, the vessel again became leaky ; but ere this the old pump had been discarded and in its place there had been fitted a powerful pump which could be connected

up to, and driven by, the main engines, so that hand-pumping was no longer necessary. What should we say of the captain if, failing to recognise the altered circumstances, he gave the same orders as before and refused to distribute rations to the crew unless they worked at hand-pumping? The point of this parable will appear in the following pages.

Perhaps it may be advisable to state in advance that my reference to the great Russian experiment now in its early stages \* must not be taken to mean that I am a Communist or a Bolshevik, or that I approve of Russian methods in all their details either under the present regime or its predecessor. Neither do I advocate a Russian revolution in Britain. Let us have instead a peaceful, but not less powerful, revolution in our ways of looking at the economic scheme of things. The outcome of my analysis is a plea for a *reversal* of our customary (and now antiquated) ways of thinking about production and consumption, saving and spending, employment and income, work and leisure. All improvements in the social system must first be conceived in the realm of ideas, for new and revised ideas, altered attitudes to human affairs, are the sprouting seeds of all great changes. Unhappily, there seems to be no distinct and widespread determination in this modern world to invent and construct the best possible economic and social machinery. Yet without it we shall never begin to acquire that essential body of experience without which greater perfection cannot be achieved.

A. P.

RUSKIN COLLEGE,

OXFORD, *September*, 1932.

\* See pp. 24 and 65-6.



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# THE WORLD IN AGONY

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## I.

### TEMPORARY INDISPOSITION OR MALIGNANT DISEASE ?

THE quest for the causes of industrial and commercial fluctuations has resulted in the production of a host of variations upon the trade cycle theme. There is much difference of opinion, of emphasis, of interpretation ; but the majority of investigators agree that each trade cycle manifests characteristics common to all cycles, as well as phenomena peculiar to itself. Conspicuous among the common characteristics we find the international range of these fluctuations, and the approximate "general concordance in timing and direction" <sup>1</sup> between the wave-like movements in different occupations. There are also the usual psychological effects—destruction of confidence and of expectations of profits, mutually communicated ; errors of optimism and pessimism <sup>2</sup> ; the effects produced by monetary causes ; and the familiar over-production of primary commodities for which the degree of elasticity of

<sup>1</sup> Pigou, "*Industrial Fluctuations*," 13.      <sup>2</sup> *Ibid.*, chap. VII.

demand is low.<sup>1</sup> The great difficulty, of course, is to discover which are causes and which effects; and whether the discovered causes in one trade cycle are always causes, or whether in a different cycle they may not, perhaps, be effects.

A superficial comparison of the present world depression of trade and industry with the history and theory of previous modern industrial and commercial crises and fluctuations might lead one to the conclusion that this is, after all, merely one of many such cycles, with nothing but a few peculiarities, the degree of its acuteness, and our own anxieties and distresses, to distinguish it from any of its predecessors. This view might be maintained in debate; but it would not be sound. History is not merely repeating itself. New history is in the making, bringing us face to face with great problems which, if not entirely new, certainly take on a new and more profound gravity the longer they go unsolved. The world is in the position of a man afflicted with a malignant disease, refusing to take at all seriously the first premonitory twinges, and obstinately postponing a surgical operation even when recurrent attacks, each more severe than its predecessor, curtail his activities from time to time. It is no longer possible to delude ourselves with talk of temporary indispositions—more or less severe attacks of economic biliousness—which will pass off naturally even if no effective remedies be applied. The symptoms point unmistakably to a disorder much more deep-rooted and stubborn.

<sup>1</sup> *E.g.*, wheat and coal.

The great depression which stretched from 1873 to 1896, with its gold shortage and downward trend of prices, its recurrent financial crises and recrudescient abnormal unemployment, was serious enough ; but the underlying causes of the malady have grown greatly since that time, and nothing but a miracle can rescue the world of to-day from depths of depression unplumbed even in the darkest days of the last century. The chief cause of this extreme economic agony lies in the fact that world productive capacity has expanded enormously, even since 1896, while no corresponding improvement has taken place in the effective demand capacity of *the masses* of mankind. This is fundamental. The more proximate complications which have increased the severity of the present attack of economic illness are the widely-pursued policy of wage reductions, the great slump in the United States of America in the autumn of 1929, new protective tariffs and prohibitions and rising tariff levels, coupled with a vast international indebtedness arising out of war borrowing and reparations demands, the "corner in gold," the general fall of world prices and the serious shrinkage in the volume of international exchanges at a time when marked expansion is an imperative necessity in order that the abundant products of modern science, machinery and organisation may find consumers. Notwithstanding all the plans and efforts of the post-war decade, the economic depression was far deeper in 1931 than in 1921. Unemployment was more vast and widespread ; financial stringency

was much greater, tariff walls higher, business confidence crushed out of existence beneath an unprecedented accumulation of uncertainties, and the quantum of international trade diminished almost beyond recognition.

Chief among the immediate causes of the special difficulties of Great Britain were the rather drastic deflationary monetary policy doggedly pursued; the great real burden of dead-weight public debt resulting mainly from war expenditure<sup>1</sup> and not reduced by inflation, as in Germany and France, but, quite on the contrary, continually aggravated by monetary deflation and the falling price level; and the fact that much of the wealth transferred as reparations from the defeated Powers to Britain's allies consisted of just such commodities as the latter would otherwise have bought largely from British exporters.

So acute has the economic agony become in the last two or three years, and so rapidly has it spread to all parts of the world, that every sane citizen to-day is earnestly wishing for a return of "better times." He hopes that before long the war debts muddle may be finally cleared up or cleared off; that the monetary convulsions of the nations may cease; that somehow the downward rush of prices may be arrested; that price stability and business confidence may be restored; and that the rising flood-waters of unemployment may at last recede.

There is, however, a real danger that concern with these immediate economic aspirations, excellent as

<sup>1</sup> See Appendix A.

they are as far as they go, may blind all of us to the fact that these "better times," even if and when they come, are certain to be chronically precarious, impermanent, and a poor apology for what might be accomplished in the economic life of the world by the systematic, planned, co-operative exercise of human ingenuity and will-power.

## II.

**OVER=PRODUCTION AND DEMAND.**

ONE of the great economic tasks of this century is, in general terms, the removal of the large element of irrationality in business dealings. The alternation of unreasonably high hopes and unjustifiable, paralysing fears induced by actual or expected fluctuations of prices, is a feature of capitalistic economy which has been so much magnified in the post-war period that all but the wilfully blind can now see what a disastrous defect it is. In such an atmosphere the rank weed of irrational speculation grows apace, and to destroy it permanently the element of uncertainty in the economic system must be reduced towards zero as fast as possible. Doubtless a more unified and scientific handling of the monetary mechanisms of the world would, as many eminent authorities have asserted, result in less instability of prices; but "management" of the monetary and credit system cannot, alone and unaided, eliminate price fluctuations. The reason is not—as some would argue—that the task is and must remain beyond the bounds of human skill and prescience, but because the monetary method is essentially general in its effects, whereas our problem is in part a problem of *particular* prices and the partial failure of the purchasing powers of particular, though very large, classes of producers.



Since purchasing power is derived, directly or indirectly, from productive activities, our approach, if we would maintain purchasing power always at a *steady maximum*, must be through a careful, comprehensive and constant study of the elasticities of demand for various primary commodities. This should be followed up by international control designed to prevent gluts which, of course, result in partial paralysis of the purchasing power of the producers of those goods, and trade depression and unemployment among the makers and exporters of manufactured goods.

Let us consider an example. "The production of the staple articles of food, particularly wheat, ministers to human needs which have very definite limitations. If a man doubles his income he may well double his consumption of many things, but he is extremely unlikely to double his consumption of bread. As Adam Smith pointed out, the capacity of the human stomach is limited: as modern economists would put it, the demand for the simpler forms of food is relatively inelastic."<sup>1</sup> It is, indeed, more than likely that a man who doubles his income will *diminish* his demand for bread because of his new-found capacity to obtain more attractive foods which, of course, will partially displace bread. Now many millions of people throughout the world—the peasants of Europe, India and China; the farming populations of the United States, Canada, Australia and South America—are engaged mainly in the production of primary

<sup>1</sup> Beveridge and others, "*Tariffs: The Case Examined*," 150.

foodstuffs and raw materials, the demand for which has, on the whole, a low degree of elasticity. Therefore, a grave danger lies in over-production of such commodities because a small excess over the normal supply causes a relatively heavy fall of prices, which, although it reduces raw material prices and the cost of living of industrial populations, reduces also in a drastic manner the agriculturists' powers to demand manufactured goods and commercial services. The industrialists find themselves quite unable to sell the whole of their existing outputs, much less those still larger outputs which improved technique and the economics of mass production continually make possible. If all prices fell in equal proportions and at the same time, then—apart from certain dislocations caused by the necessity of making adjustments to the new general price level—the volume of trade in primary products and manufactured articles would remain substantially unaffected. But, in fact, this never happens. "A particularly striking aspect of price movements during the depression has been the much greater fall in the prices of raw materials in general than in those of manufactured goods. . . . This phenomenon . . . appears to be characteristic of all periods of economic depression. The reactions of manufacturers and primary producers, in particular agriculturists, to falling prices are of an essentially different character; the former restrict output, while the latter often attempt to expand production" <sup>1</sup> in the hope of gaining the same

<sup>1</sup> League of Nations Report, "*The Course and Phases of the World Economic Depression*," (1931), 167.

aggregate income from a larger total crop sold at lower prices. Writing of English farming in the year 1922, Mr. A. G. Street says :

“ It was a wet summer, and the price of both corn and milk slumped badly. I found that I had great difficulty to pay my interest and meet other liabilities. Something must be done, and that urgently. Now when a farmer finds that his yearly sales do not bring in enough money for him to pay his way, his most usual course is to try to increase his production. In my own case, I tried to grow more corn.” <sup>1</sup>

But since nearly everybody makes the attempt, nobody succeeds, and agriculturists' powers to buy are curtailed not only by the greater rigidity of the prices of manufactured goods but by the decline in money incomes as well. The following statistics illustrate this point. They indicate roughly the magnitude of the price disparity between purely agricultural produce, raw materials and manufactured articles in four countries.

PERCENTAGE FALL IN WHOLESALE PRICE INDICES  
IN CERTAIN COUNTRIES, JUNE, 1929-JUNE, 1931.

|                          | Agri-<br>cultural<br>Produce. | Raw<br>Materials. | Manu-<br>factured<br>Goods. |
|--------------------------|-------------------------------|-------------------|-----------------------------|
|                          | Per cent.                     | Per cent.         | Per cent.                   |
| United States, . . . . . | 33                            | 30                | 20                          |
| Canada, . . . . .        | 44                            | 33                | 19                          |
| Germany, . . . . .       | 21                            | 22                | 13                          |
| Italy, . . . . .         | 32                            | 34                | 12                          |

<sup>1</sup> A. G. Street, “ *Farmer's Glory*,” 231-2.

Furthermore, as Professor Pigou says, "figures of aggregate consumption give an inadequate idea of the social evil involved in fluctuations, because they take no account of the way in which the cuts in consumption necessitated by depression are distributed among different individuals in the wage-earning class. . . . There is good reason to believe, however, that the scattering of consumption variations is considerable, and the consequent damage to economic welfare grave." <sup>1</sup> If we make the picture more complete by including the consumption cuts of the masses of primary producers, many of whom are never affluent at the best of times, the gravity of the world situation so created needs no further emphasis.

Surplus stocks are the enemies of normal production. Yet, for several years past, these enemies have been gathering for the attack in such force that the slightest slackening of the rate of consumption has been fraught with danger to the price level. Rubber, wheat, sugar, cotton, wool, flax, hemp, jute, silk, copper and tin—all these commodities and many others have increased in annual output and visible stocks in the last few years. Between 1921 and 1930, the annual world production of thirteen staple commodities increased as follows : <sup>2</sup>

---

<sup>1</sup> Pigou, *op. cit.*, 241.

<sup>2</sup> Figures taken from " *Statistical Year Book of the League of Nations*," 1930-31.

## AGGREGATE WORLD PRODUCTION.

|  | 1921. | 1923.  | 1926.  | 1929.  | 1930. |
|--|-------|--------|--------|--------|-------|
| <i>Sugar.</i> —  |       |        |        |        |       |
| Beet } millions of   | 50    | 60     | 78     | 92     | 115   |
| Cane } quintals, {   | 134   | 147    | 162    | 180    | 166   |
| <i>Raw Rubber</i> —thousands of metric tons, . . .                                     | —     | 486    | 660    | 882    | 830   |
| <i>Wool</i> —thousands of metric tons, . . .   | —     | 1,278  | 1,572  | 1,668  | —     |
| <i>Petroleum</i> —millions of metric tons, . . .                                       | 107   | 142    | 152    | 206    | 195   |
| <i>Coal and Lignite</i> (in terms of coal)—millions of metric tons, . . .              | —     | 1,252  | 1,237  | 1,390  | 1,263 |
| <i>Wood Pulp</i> (chemical and mechanical)—thousands of metric tons, dry weight, . . . | —     | 10,813 | 14,162 | 16,700 | —     |
| <i>Copper</i> —Smelter production, thousands of metric tons, . . .                     | 552   | 1,241  | 1,485  | 1,981  | 1,624 |
| <i>Lead</i> —Ditto, . . .  | 930   | 1,248  | 1,653  | 1,803  | 1,670 |
| <i>Zinc</i> —Ditto, . . .  | 432   | 945    | 1,219  | 1,458  | 1,370 |
| <i>Tin</i> —Ditto, . . .   | 94    | 141    | 151    | 195    | 177   |
| <i>Aluminium</i> —Ditto, . . .   | 75    | 146    | 198    | 271    | —     |
| <i>Pig-iron and Ferro-alloys</i> —millions of metric tons, . . .                       | 38    | 69     | 79     | 98     | 80    |
| <i>Steel</i> (Ingots and castings)—millions of metric tons, . . .                      | 45    | 79     | 93     | 120    | 94    |

From 1924 until the third quarter of 1929 the consumption of staple commodities was "making great strides . . . in many instances exceeding even the wildest expectations,"<sup>1</sup> but demand was readily met by the exceptionally high productive capacities in the various primary industries. Subsequently, especially after the Wall Street crisis in September, 1929, consumption diminished sharply and stocks accumulated with extraordinary rapidity.

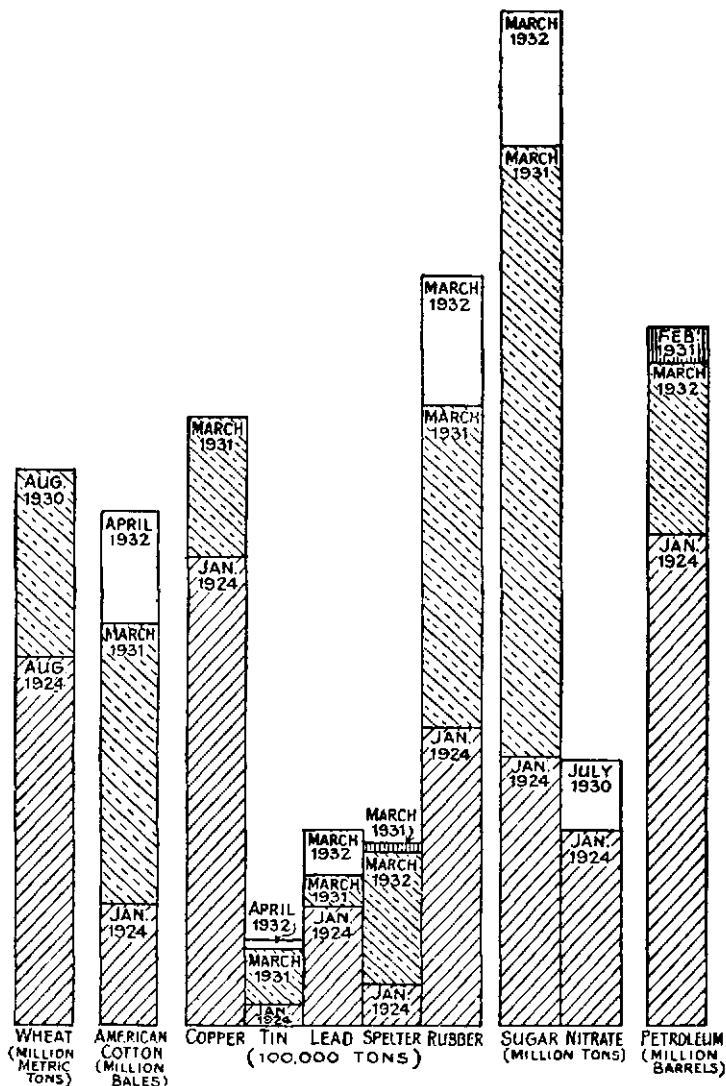
<sup>1</sup> Royal Economic Society, *Memorandum No. 24*, p. 3.

In a memorandum on "*Stocks of Staple Commodities*" issued by the Royal Economic Society, it was authoritatively stated that "the present (October, 1930) level of stocks is in general comparable only with the aftermath of the post-war slump of 1921, and in some cases even that peak is far exceeded." The congestion less than eighteen months after the great crash in the United States may be gauged from the table given below.

| Stocks of Staple Commodities at the beginning of— |                   |                 |                           |
|---|-------------------|-----------------|---------------------------|
|   | January,<br>1924. | March,<br>1931. | March-<br>April,<br>1932. |
| American Cotton (thousand bales), . . . . .       | 2,010             | 6,888           | 8,760                     |
| Copper (thousand tons), . . . . .                 | 402               | 519             | *                         |
| Tin " " . . . . .                                 | 21                | 57.7            | 61.5                      |
| Lead " " . . . . .                                | 94.2              | 123.2           | 161.9                     |
| Spelter " " . . . . .                             | 34                | 142             | 138                       |
| Rubber " " . . . . .                              | 254               | 533             | 644                       |
| Sugar " " . . . . .                               | 2,255             | 7,573           | 8,641                     |
| Nitrate " " . . . . .                             | 1,639             | July,<br>1930.  | } *                       |
| Petroleum (million barrels), . . . . .            | 414               | 2,249           | } 570                     |
|   |                   | 593             |                           |

\* Not available.

Wheat may be taken as an outstanding example of a primary commodity of world-wide importance, the demand for which shows a low degree of elasticity. A relatively small abnormal excess of total supply is liable to drive the price down in a marked manner, and so to make considerable



STOCKS OF STAPLE COMMODITIES.

inroads into the purchasing powers of wheat producers, in spite of the larger harvests obtained. The quantity of land under wheat in the principal wheat-growing regions of the world in 1929 was considerably in excess of the 1924 total, and of the average for the pre-war period 1909-13.

| Region.                    | Millions of hectares.* |             |              |              |
|----------------------------|------------------------|-------------|--------------|--------------|
|                            | 1909-13.               | 1924.       | 1926-29.     | 1929.        |
| Europe (excluding Russia), | 29·3                   | 27·1        | 28·5         | 28·1         |
| U.S.S.R., . . . . .        | 29·9                   | 18·6        | 30·4         | 30·6         |
| U.S.A., . . . . .          | 19·0                   | 21·3        | 23·7         | 24·7         |
| Canada, . . . . .          | 4·0                    | 8·9         | 9·6          | 10·2         |
| Australia, . . . . .       | 3·1                    | 4·4         | 5·4          | 6·0          |
| Argentine, . . . . .       | 6·0                    | 6·5         | 7·4          | 6·4          |
| <b>TOTAL, . . . . .</b>    | <b>91·3</b>            | <b>86·8</b> | <b>105·0</b> | <b>106·0</b> |

\* Sources: "International Year Book of Agricultural Statistics," and "Statistical Year Book of the League of Nations," 1930-31.

The average yield per hectare rose slightly between 1909-13 and 1926-29, while the world consumption per head of population declined approximately 4·5 per cent. "Similar calculations for rye and rice point to a corresponding change in the consumption of these commodities." <sup>1</sup>

Although the 1926 and 1927 crops of wheat were light, stocks actually increased, and the heavy crops of the following years, coupled with organised

<sup>1</sup> League of Nations Report, *op. cit.*, ch. II. and p. 321.



attempts to support prices by holding up supplies, speedily caused a great glut.

### WORLD STOCKS OF WHEAT.

| August.         | <i>Millions of Metric Tons.</i> |
|-----------------|---------------------------------|
| 1921, . . . . . | 10·2                            |
| 1922, . . . . . | 10·8                            |
| 1923, . . . . . | 11·1                            |
| 1924, . . . . . | 12·4                            |
| 1925, . . . . . | 9·3                             |
| 1926, . . . . . | 10·1                            |
| 1927, . . . . . | 11·3                            |
| 1928, . . . . . | 13·4                            |
| 1929, . . . . . | 21·3                            |
| 1930, . . . . . | 19·0                            |
| 1931, . . . . . | 16·4                            |

The causes of this glut of wheat are increased acreage, revolutionary changes in cultural practice, the march of mechanisation and, latterly, the decline in consumption. Mr. R. R. Enfield has recently reminded us that "In his Presidential Address to the British Association in 1898, Sir William Crookes predicted that in 1931 the world was likely to be short of wheat. In reality, 1931 has been a year in which the world has been engaged in disposing of the largest wheat crop ever harvested, in which stocks have risen to record figures, in which prices have fallen to the lowest level for which there are modern records, and in which growers over vast acres of wheat land have found that their returns do not cover the cost of production. . . .

The average wheat yield in countries for which there were statistics at the time Crookes gave his address was estimated at 12·7 bushels per acre. In the past seven years it has averaged 14·1 bushels, an increase of approximately 11 per cent. But the total world's production has increased in these thirty years by over 60 per cent. It is not so much to the chemist as to the biologist and the agricultural engineer that we owe the means of effecting this expansion ; to them are primarily due the technical advances which have made possible the extension of the world wheat area into regions previously regarded as unsuitable or incapable of growing wheat commercially." <sup>1</sup> A recent League of Nations study gives some details regarding mechanisation : " In agriculture there has also been a great development in mechanisation in recent years, particularly by the introduction of the ' reaper-thresher,' generally known as the ' combine.' In 1914 only 270 of these machines were manufactured in the United States, but by 1929 the number had increased to 36,957. Official figures have been published showing the saving in labour consumption as a result of the use of these ' combines.' They show, for all processes of harvesting wheat (at 15 bushels per acre), 0·75 man-hour per acre with a ' combine ' as compared with 3·8 and 4·6 with a ' header ' and ' binder ' respectively. Increased expansion of cultivation areas is, however, not required at the present time, because increased

<sup>1</sup> Art. on " The World's Wheat Situation " in " *Economic Journal*," December, 1931, p. 550.

markets do not exist. Hence the labour-saving properties of the 'combine' must necessarily lead to a decrease in the amount of human labour used." <sup>1</sup> In relation to agricultural production it must be remembered that wherever the march of mechanisation definitely invades the farmers' domain, it results not only in a slackened demand for human labour, but in a decrease in the number of draught animals kept on farms. Fewer farm animals to feed means that more land is released to produce crops for human consumption. Moreover, output is increased by scientific researches which aim at discovering types of seed suitable for every soil and climate (e.g. quick-ripening wheat), and seeds immune from certain diseases. On the whole, crop failures to-day are less frequent and less severe than in the past. Agricultural output still appears capable of steady expansion, while the slower growth of the world's population offers, at present, no corresponding prospect of sufficient expansion of markets. In a word, we are living in the Age of Abundance. There is no longer any real necessity for the majority of the world's population to be haunted by the spectre of scarcity, and economic philosophy and policy need no longer be based upon the assumption that abundance is exceptional, to be attained only occasionally after herculean efforts, sacrifices or "disutilities." The measure of mankind's power and success in counteracting the onset of increasing unit costs ("diminishing returns") is in this twentieth century far greater in all directions

<sup>1</sup> I.L.O. Study, "The Social Aspects of Rationalisation" (1931), 257.

—even in the extractive industries—than it has ever been in any period of the past. Instead of a constant, harassing pressure of population upon the means of subsistence, we have a situation in which the means of subsistence are pressing upon the population !

Recent experience in connection with various staple commodities affords convincing proof that those who attempt to hold up supplies and prices without also taking effective control of production are very likely to defeat their own object, especially if, for any reason, such as technical progress, costs of production are decreasing. The steady level of prices secured for the time being will encourage an extension of production and result in increasing stocks. The latter, of course, cannot be held indefinitely.

Rubber, nitrates, copper and coffee furnish us with outstanding examples of this danger. Restriction of exports of rubber from British territories resulted in high prices which, on the one hand, encouraged planters to proceed with new planting, and, on the other hand, stimulated the utilisation of reclaimed rubber, which thus acted as a tolerably effective substitute for new rubber and so increased the elasticity of demand for the latter. The price peak in the post-war period was reached in 1925. Thereafter, the increasing use of reclaimed rubber began to bring raw rubber prices down ; but, owing to the lack of elasticity on the supply side, production and stocks continued to rise. As long ago as 1926, rubber production exceeded consumption

by 65,000 tons, or  $8\frac{1}{2}$  per cent.; and the *League of Nations Report* speaks of "a huge over-supply in 1929," which was by no means offset by the decline of 6 per cent. in the following year. Official statistics show that between 1910 and 1930 the net exports of crude rubber from the rubber-producing regions of the world<sup>1</sup> increased nine-fold. In the decade 1921-1930 the recorded changes in visible world stocks were<sup>2</sup> :—

## WORLD STOCKS OF RUBBER.

| Year.            | Thousands of tons. |           |
|------------------|--------------------|-----------|
|                  | Increase.          | Decrease. |
| 1921, . . . . .  | 25                 | —         |
| 1922, . . . . .  | 20                 | —         |
| 1923, . . . . .  | —                  | 32        |
| 1924, . . . . .  | —                  | 64        |
| 1925, . . . . .  | —                  | 22        |
| 1926, . . . . .  | 86                 | —         |
| 1927, . . . . .  | 26                 | —         |
| 1928, . . . . .  | —                  | 17        |
| 1929, . . . . .  | 89                 | —         |
| 1930, . . . . .  | 122                | —         |
| TOTAL, . . . . . | 368                | 135       |

<sup>1</sup> British Malaya, Dutch E. Indies, Ceylon, India, British N. Borneo, Sarawak, French Indo-China, Siam, and South America.

<sup>2</sup> Royal Economic Society, *Memorandum No. 29* on rubber, by J. W. F. Rowe, p. 83.

The remarkable fall of the price of rubber is shown below.

### RUBBER (PLANTATION SHEET).

|                 | Pence per lb. |
|-----------------|---------------|
| 1910, . . . . . | 105           |
| 1924, . . . . . | 20            |
| 1925, . . . . . | 46            |
| 1926, . . . . . | 19            |
| 1927, . . . . . | 20            |
| 1928, . . . . . | 8½            |
| 1929, . . . . . | 8             |
| 1930, . . . . . | 4½            |
| 1931, . . . . . | 3             |

A writer in a contemporary financial monthly reveals a desperate situation at the close of 1931 :

“The British and Dutch Governments have not been able to come to any agreement as to what united action they should take. A plan which holds the field at the moment and which is being much discussed is that by which rubber will be taken from the producers in the form of a tax and will then be destroyed by the Government concerned. It is a plan which has been adopted in Brazil in dealing with the excess production of coffee. There an export tax of 10s. per bag has been applied by the National Coffee Council in the purchase for destruction of 2,057,116 bags of coffee up to October 31st, 1931. Strange commentary on our modern civilisation, or ‘the age of confusion,’ as Wells puts it in his Utopian dreams, when in an impoverished world the good things of life have to be destroyed because it

does not pay to produce them ! Restriction by destruction has an unpleasant sound but, as things are, it is the only course which has so far been devised to find a way out of the ruinous condition into which the whole rubber-producing industry has fallen.”<sup>1</sup>

One is tempted to add—Better a Wellsian dream than this present nightmare. In January, 1932, came the news of a new and more drastic scheme under which the National Coffee Council was to conduct a “colossal holocaust” by taking from stocks or buying and burning coffee at the rate of one million bags per month.<sup>2</sup>

The recent price history of copper is somewhat similar. Although, after 1926, about 90 per cent. of the copper production-capacity of the world was said to have been brought under the control of Copper Exporters Incorporated, this concern did not arrest the increasing output of copper. Indeed, after the end of 1926, the production curve turns upwards even more steeply than before. At the same time prices were rising and this stimulated the use of substitutes for copper. An increase in stocks and a decline of prices is, therefore, not surprising.

Another example of considerable interest is to be found in the new rayon or artificial silk industry. “The very favourable prices of artificial silk,” says the *League of Nations Report*, “during the greater

<sup>1</sup> “*Financial Review of Reviews*,” December, 1931, 14.

<sup>2</sup> The whole problem of Brazilian Coffee is admirably dealt with by Mr. J. W. F. Rowe in Royal Economic Society *Memorandum No. 34* (1932).

part of the post-war period naturally led to large increases in the capacity of the industry which finally overtook the rise in demand. Hence prices around 1928 were falling and a considerable surplus capacity seemed probable. Numerous attempts towards international regulation of the artificial silk market did not cover sufficient producers to exercise lasting influence on the price level."

Throughout the world sugar producers are in the grip of a severe and protracted depression, chiefly due to the fact that the rate of production-increase, expanded by technical progress and State subsidies in one form or another, has outstripped the rate of consumption-increase by a large margin.<sup>1</sup> "When in 1914 the great sugar-consuming country Great Britain was cut off from its normal beet supplies in Austria-Hungary, a great stimulus was given to cane sugar. Some far-sighted Dutch planters in Java employed scientists to study the Mendelian laws of heredity and the intricate statistical calculations which show the results of selection and inter-breeding, whether in animal or plant, and to try to find some practical application to cane-growing. A combination of practical experiment and statistical research succeeded beyond all expectation and by careful selection the sugar content of the cane was multiplied several times without increase in man power or in cost."<sup>2</sup> At this point, when the combined outputs of beet and

<sup>1</sup> See pp. 11-13, and *Ministry of Agriculture Report on the Beet Sugar Industry at Home and Abroad* (1931), p. 229.

<sup>2</sup> A. Salter, "*Recovery: The Second Effort* (1932)," pp. 33-4.



cane sugar bade fair to be far greater than ever before, the British Government decided that a beet sugar industry should be developed in this country, by means of a generous subsidy tapering off over a period of fifteen years. This, of course, turned a highly probable glut of sugar into an absolute certainty.

Instances could be multiplied, but probably we have gone far enough to raise the question whether it would not be better to make a careful study of elasticities of demand, and to regulate output scientifically, on an international scale, than to follow the present course of glutting the market and then closing down for months, perhaps years, until accumulated stocks—which cannot be held in storage without expense—have been gradually consumed? Moderate regular meals are surely more conducive to physical fitness than gusts of gluttony alternating with periods of starvation. Yet at present the nations are so far from taking a sane view of this urgent problem that they have actually pursued, and are pursuing, courses of action which have intensified the glut. By various expedients such as the increase of import duties on foodstuffs, both “home” prices and cultivated areas have been buttressed.<sup>1</sup> In the United States the Federal Farm Board and kindred organisations pursued a policy which kept Chicago wheat prices approximately 15 per cent. above world prices, with the result that the visible supply of wheat in the

<sup>1</sup> International Institute of Agriculture, “*The Agricultural Situation in 1929-30.*”

United States rose from 33,000,000 quintals in May, 1930, to 50,000,000 quintals at the close of May, 1931. The effects of falling produce prices have been severe not only in the United States, but in Canada, Argentina and Australia: and all this in spite of the fact that so far (although the panic propaganda of the anti-Russian alarmists would have us think otherwise) exports of wheat from Russia have reached, in their upward movement, only 70 per cent. of their normal pre-war level. The prices of Canadian farm products, for instance, declined more than 40 per cent. between 1928 and 1931.

In a changing world, all adjustment failures, or deliberate actions which intensify maladjustment, must bring disharmony and distress, confusion and misery. The more rapid and extensive the changes, the more acute and critical will be the consequences of non-adjustment or maladjustment; and procrastination proves to be not only the thief of time, but of human welfare also. On all hands it is admitted that the whole economic system of the modern world is like a highly complex and delicate machine. *The trouble is that it is never delicately adjusted.* It never receives the careful treatment its complexity demands. If one imagines a complex piece of machinery, comprising numerous cog-wheels which differ in size and in the number of revolutions per minute required to give efficiency and smoothness of running, it is perfectly certain that nothing could, and nothing would, be left to chance. Engineers would make careful experiments, and the optimum speed of each of the different

parts would be predetermined. These speeds may be said to correspond to those different elasticities of demand for different commodities, which ought to be studied so that economic policy may be shaped accordingly. Where this is not done, how can the running of the economic machine be anything but uneven and spasmodic? How can anything but breakdown after breakdown be expected by any rational being? At first glance the marvel is that it works as well as it does, and that we get from it as much as we do. But, on further reflection, one marvels more that people continue content to accept so little from a machine which could be made to yield so much. How might this be done? The answer is—by international study, international planning, international control and co-operation.

“Cartels and trusts,” says Professor J. H. Richardson in a recent book, “limit their operations mainly to a single commodity or industry. These are not, however, the only possibilities of international organisation of production and trade. Other developments are indicated by the proposals under consideration in Central and Eastern Europe to increase facilities for the exchange of agricultural and industrial products, by economic aspects of the project for a United States of Europe, and by plans for British Empire economic co-operation on the lines discussed at the Imperial Conference, 1930. They include proposals for the regulation of trade by agreement upon marketing methods, import quotas, and bulk purchase of staple products. On the side of production the object would be to plan

capital developments so that the economic structure of different countries will be complementary rather than competitive.”<sup>1</sup> A certain number of international non-profit-making organisations are already in existence—the League of Nations, the International Labour Organisation, the International Chamber of Commerce, the International Federation of Trade Unions, the International Organisation of Industrial Employers—and there is talk of an International Bank. These are but small beginnings made within the present generation : a few advanced ideas which have begun to crystallise, although the external conditions have not been particularly favourable—nor can it be said, in view of the present pre-occupation of so many nations with self-sufficiency and the “correction” of their respective trade balances, that conditions are becoming more favourable. It is idle to hope or pretend that effective international co-operation, co-ordination and control, as yet very much in its infancy, can grow, so long as nations choose to create a choking fog of exaggerated economic nationalism which prevents them from seeing beyond the tips of their noses, and suffocates all truly constructive efforts and aspirations. Yet woe betide us all, and those who come after us, if these efforts, aspirations—dreams, if you will—be not speedily brought to practical fruition.

<sup>1</sup> “*Economic Disarmament*,” 104.

## III.

**WRONG TREATMENT—TRADE *versus* TRIBUTE.**

“ To the imaginary visitor from Mars the present state of international affairs on this planet might well appear the reign of lunacy. Suppose it to be a second visit and that the former was before the end of the War. If a Martian philosopher thought the nations furiously demented in the midst of their mutual carnage and devastation, he might well think them almost more inexplicably mad amidst the perversities of their peace.”—  
(J. L. Garvin.)

Undoubtedly one of the chief post-war perversities is the persistent attempt to add more and more to the weight of the shackles which impede and cripple international trade. All the evidence suggests that the nations to-day are trying to conduct a world-wide economy by means of the outworn methods of the Mercantile Age. For centuries tribal and national self-sufficiency was the rule ; and trade, although it seemed important enough at the time, was in fact nothing more than the exchange of small surpluses. But in the modern world trade must be much more than this : enormously greater in volume and ramifications. In no other way can the abundant results of modern production be brought to a

sufficient number of consumers. In no other way can the full potentialities of power production be translated into terms of human satisfaction and happiness. Yet in this matter, so vital to all peoples, world economic policy has quite clearly gone wrong. Instead of making plans for the gradual reduction of the major obstacles to international exchange, the majority of the nations are letting no opportunity pass of raising them or thinking of new ones. Trade is sacrificed to tribute, and the creditor nations create economic havoc by demanding to be paid, but refusing to receive payment in goods. Apparently the modern method of dealing with international commerce prefers murder to nurture. "Germany," we read, "has succeeded, by very drastic control measures, in producing a considerable export surplus, though not nearly enough to enable her to pay the huge sums which she owes abroad. But this is already resulting in threats of retaliation from Holland and elsewhere. The creditor countries, faced with their own problems of unemployment, are complaining of German and other competition, and are equally trying to restrict imports. . . . If every country simply takes its own measures to restrict imports it will gradually strangle exports from every source and finally end in the paralysis of all international trade." In polite circles all this is known as "the correction of the trade balance."

Economic nationalism in the modern world is a hardy weed which has stoutly survived all previous efforts to uproot it. Treat it as you will, it flourishes

still. Let Britain adopt Free Trade "in all its simplicity," said Cobden in 1846, and "there will not be a tariff in Europe that will not be changed in less than five years to follow your example." But the weed, refusing to be killed by kindness, has, since Cobden's day, twisted itself year by year ever more firmly around nearly every European State, to say nothing of the rest of the world. To-day one hears the opposite treatment suggested. Sow a weed to kill a weed, they say. Let there be a Mosaic Law in economic relationships—a tariff for a tariff. Let the few remaining free trade and low-tariff nations boldly embrace high protection so that they may be in a position to bargain with protectionist nations for reductions of protective tariffs. This proposal of tariffs to reduce tariffs is similar to the war-to-end-war talk which wearied many of us not much more than a decade ago. It had a hollow sound because it was but talk, lacking the living spirit of sincerity. Setting a tariff to bring down a tariff is likely to be just about as effective as making war to end war. If the proposal were sound, and if, in truth, tariffs had this effect, we should ere this be living in a low-tariff, if not, indeed, a no-tariff world. But, on the contrary, most of the states of the world have been busy trying to organise themselves into self-sufficing units, each seeking sectional advantages without regard for the effects produced upon the rest. The result is general impoverishment in every sense of the word. All are gripped in the vicious circle, for any single State which tries to stand out against the general

trend is in grave danger of increasing its difficulties and distresses, and likely to end by being still more impoverished than the others. The world is walking backwards, preferring the disastrous pursuit of a mirage to the path of economic salvation : straining after something which is daily becoming more and more unattainable and unprofitable, in preference to what is attainable, constructive, progressive and essential to the economic health of all nations. An American has recently pointed out that even the United States "is dependent on other countries for tin, silk, nickel, rubber and many other commodities. The tyres on American automobiles come from the rubber plantations of the Dutch East Indies. American newspapers are made of Canadian wood pulp. We, in the United States, could not manufacture a telephone receiver or an electric light bulb without calling on help from abroad. Take the question of steel, for example. Forty different commodities, assembled from fifty-seven different countries are necessary to its manufacture. Nickel from Canada, vanadium from the high Andes of Peru, manganese from the Caucasus, chrome from New Caledonia in the Southern Pacific—it is by grace of these materials, and through the sweat of the labourers of these countries that we have locomotives and turbines and skyscrapers. A country that could not make a locomotive, an automobile or an airplane without materials from abroad can scarcely be called self-contained."

Sir Josiah Stamp, reviewing the Macmillan Report, states that "Up to now, to tinker with the



old order, adjust its temporary dislocations, and close the old ranks in the old way has been the accepted approach to our problems. This Report shows that the world we are to live in is a new one, with new problems, and a technique to be worked out." Probably the reviewer is referring mainly, if not exclusively, to our monetary problems; but what he says is equally true of other departments of economic life to-day, and could not possibly be expressed more succinctly. An altered world, new problems, and a technique to be worked out—this is the whole matter in a nutshell. So far, however, the working out of the new technique hangs fire. People seem unable to tear themselves away from the economic past, in spite of the misery of the economic present. Desperately, pathetically, they cling to obsolete methods and institutions.

Of course, we must admit the possibility that while unadulterated free trade would maximise the total wealth of the world, it might result in such an uneven distribution of that wealth as between the nations, that some modifications of the complete free trade system might be economically justifiable. In other words, between nations, as between individuals, the abolition of extremes of poverty and riches might be preferable to a rather larger aggregate of wealth. But the pursuit of this objective would not lead to *general* systems of tariffs; and no sane person can contend that the builders of the world's tariffs have been wholly, or indeed mainly, actuated by such considerations.

The recent intensification of economic nationalism

is, of course, a result of the Great War. Not a few of the miserable economic consequences of the peace of Versailles may be traced to the triumph of nationalistic aims and aspirations over all others : the ruthless tearing asunder of natural economic units in order to make national political units. The increase of the latter has brought in its train an increase of international jealousy and modern mercantilism. The tariff walls of Europe are now hundreds of leagues longer and many cubits higher than in 1914. These tariffs, by reducing the aggregate volume of trade, diminish also "invisible imports and exports," *i.e.*, the total volume of shipping, insurance, banking and similar services rendered by the people of one State to those of another. The full enjoyment of the vast advantages of cheap, rapid and regular transport between nations is wilfully rejected. Could anything be more irrational? The engineers have done their work well and may justly be proud of their achievements in the service of humanity. It is a thousand pities that the same cannot be said of modern governments. "If," says Mr. J. A. Spender, "one tried to condense the world problem for 1932 into one question, that question would, I think, be: How much economic sense will the politicians of the various nations permit their respective countries to practise during the coming twelve months? . . . The nations, in fact, are in the absurd position of having exhausted and impoverished one another and destroyed the mechanism of ordinary commerce in a futile effort to force a blockade which they

themselves have imposed.”<sup>1</sup> A month later we find a leading British banker saying, in a public speech, that “cut off from the possibility of normal international trade, nations of the earth have been showing an increasing tendency to think of themselves alone and to aim at an impossible state of self-sufficiency; to be willing indeed to sell to others, but by tariffs, restriction of imports, and control of exchange, to render it impossible for other nations to sell to them. In such a mad world a return of prosperity, the one thing we all want, has, for the time being, been made an impossibility, and international trade has been brought largely to a standstill.”<sup>2</sup> One would have thought it unnecessary to “tell the world” that nobody on a sinking ship can save himself by locking himself in his cabin.

Most unfortunately it has so far proved quite impossible to stop the marked upward trend of tariffs in all parts of the world. East and west, in Europe, America, Australia, Africa, and even in Asia, the record has been very similar. Even the World Economic Conference of May, 1927, could achieve nothing beyond a slight and temporary slackening of this movement. But temporary tariff agreements which run for very short periods afford no real relief, for they do not diminish that general uncertainty about the near future which paralyses private enterprise. Everywhere in the

<sup>1</sup> “*News-Chronicle*,” January 7, 1932.

<sup>2</sup> Mr. Beaumont Pease’s Speech at General Meeting of Lloyd’s Bank, Ltd., February 5, 1932.

post-war decade vested interests have exploited to the utmost the appeal to hyper-sensitive nationalist sentiments, and high protection has been the reward of their astuteness. Every possible argument has been brought to bear—national defence ; self-sufficiency ; desirability of large-scale production ; prevention of dumping by foreign large-scale producers ; counteraction of exchange dumping ; increase of tariff bargaining strength ; and so forth. The whole armoury of Protection has been drawn upon to the full.

In view of the strong downward trend of prices, it is of the highest international importance to avoid as far as possible the over-development of industries. Yet Protection causes the over-development of similar industries in many different countries, which brings in its train intense competitive cutting of prices and rates of wages, and gives rise to insistent requests for more, and still more Protection. Here are the views of the Macmillan Committee on this aspect of the tariff tangle :—

“ A further influence affecting the equilibrium of supply and demand throughout the post-war period has been the increase in the growth of restrictive policies in the shape of Tariffs and Subsidies, Import and Export Prohibitions, the exploitation of the administrative features of the tariff for protective purposes, and the retention of the local market for local manufactures by the exclusion of foreign firms from public works contracts. Moreover, the number of separate

Customs areas has increased in consequence of the break-up of the old European Empires. One of the effects of these commercial policies consists in the tendency to increase surplus capacity. The break-up of Europe resulted in the old industrial organisation of countries like Austria-Hungary being parcelled out among the Succession States. If the spinning section of the cotton trade was mainly located in one State, and the weaving in another, efforts were directed in each, through the instrumentality of the State, to setting up a new weaving and spinning section respectively. The net effect was to increase the total world capacity beyond the point at which the total equipment could find employment. No doubt to some extent the commercial policies which permitted these developments merely anticipated the inevitable. The growing rationalisation of agriculture brings with it, for instance, the necessity of finding alternative methods of employment for the displaced agricultural population. But the attempt to solve the transfer problem so created by the uncoordinated tariff activities of a large number of independent authorities may very well accentuate the transitional difficulties involved, by action which increases the duplication of productive capacity and the consequent wastage of capital.”<sup>1</sup>

The International Chamber of Commerce, the International Federation of Trade Unions, and other

<sup>1</sup> *Report of Committee on Finance and Industry (Cmd. 3897, 1931), 62-3.*

bodies have said, in effect, that prohibitions and protective tariffs are public nuisances of the first magnitude and ought to be reduced. But no reduction do we see, so strongly are the vested interests entrenched over against the ill-organised forces of those who seek the wider public good.

At bottom, the present agony of the world is due to lop-sided growth. In some respects we are ultra-modern, but in others we are as old-fashioned as the hills. What is economic nationalism but the outworn survival of a less enlightened age? It is a perpetual marvel that this scourge can continue to exist beside the advanced scientific discoveries and inventions with which we are surrounded. The fact is that parts of the body of the modern world are atrophied; they have failed to grow and develop as certain other parts have done, and the result is that the threat of paralysis is upon us. Our attitude to international trade is one of these atrophied parts. Mercantilism, with all its Navigation Laws, its taxes, restrictions and exclusions of every kind, has not passed into history. It is with us yet, and has the modern world in such a grip that even the people of Great Britain have at last fallen again under its power. "With trade lines open," says the *Report of the Foreign Creditors Committee* (1932), "labour now idle in one country could be at work producing goods in exchange for goods which would be produced by labour now idle in another country. . . . But the trade barriers stand between them and both remain idle." The younger States have generally adopted a high tariff

system from a feeling of inferiority and a desire to become, as speedily as possible, the economic equals of all other States ; while many of the older States have raised their tariffs from fear that they might not always remain economically superior.

In an incredibly short space of time the U.S.A. has stepped from the ranks of the debtor nations into the front rank of the creditor nations, and her debtors are to be found in the Old World as well as in the New. The Munro Doctrine is a writ which does not run in the economic sphere. The people of this vast half-continent have a productive equipment second to none in the world, which is now beginning to yield a large and steady surplus of commodities for export. But, having sold their goods to other nations, the Americans have been unwilling to bring home the proceeds in goods ; and now they are not quite certain whether they wish any longer to be paid in gold. Is there any other way in which settlement can be made ? Or must creeping paralysis gradually destroy their overseas commerce ? “ There is one remedy,” says President Hoover, “ and that is by systematic permanent investment of our surplus in productive works abroad. We thus reduce the return we must receive to a return of interest and profits.” So long as plenty of borrowers of sufficient financial stability can be found to take up the surplus, this policy might resolve the difficulty for a time. But the larger and more systematic the annual export of capital from the United States, the greater will be the “ return of interest and profits ” to be

received by that country. The effect will be cumulative, especially if the interest and profits on America's foreign investments are reinvested abroad.

Another question presents itself. Why cannot the many millions of people in the United States of America consume a substantial portion of this "surplus" product or the products for which it could be exchanged if international trade were free? Let us admit, for argument's sake, that for one-half of their surplus the demand of the American population is inelastic, so that neither reduced prices nor instalment purchase facilities, nor advertising, nor any other method will suffice to sell more of those goods inside the United States. What, then, of the other half? Is the general standard of life even in the United States so high that all are surfeited to repletion with goods and services? Or are the existing methods of distributing purchasing power among the population inadequate to the task which modern mechanised mass-production has set them? Is there a failure of *consuming* power, *i.e.*, all actual and potential human powers to consume goods and services; or is there a failure of *purchasing* power, which means the effective demand that people are in fact able to exercise as buyers in the market? Surely the answer is that only a few sons and daughters of Fortune have practically reached the limits of their consuming power; and for the rest we are faced with a problem of the failure of purchasing power to find its way into the pockets of those whose



standards of life still leave room for vast improvements, and whose name is legion. This, of course, is a world problem, and not a problem peculiar to the United States. The United States, indeed, down to 1929, had come nearer to a solution than any other nation; but complete success cannot be achieved by any one nation acting alone. A policy of high wages in the United States cannot alter the fact that many American agriculturists have to sell much of their produce (*e.g.*, wheat and raw cotton) outside America in countries where a quite different wage policy is pursued. Therefore, the American high-production-high-purchasing-power circle is not complete; and although the missing section may not be large in proportion to the aggregate circumference, it is, nevertheless, an essential part of the whole circle. This argument applies *a fortiori* to such a country as Great Britain, whose dependence upon international trade and the purchasing power of overseas buyers is too widely recognised to need further emphasis or proof.

## IV.

THE RIGHT WAY—MASS-CONSUMPTION  
AND LEISURE.

“*Dec. 12.*—At the Clubb Mr. Gormby in the Devill’s own stew by a report he hears that, failing a betterment of the present posture of affairs within the next mo or 2, we are to be put on food cards, the same as we were in the Warr. But this, I was forward to assure him, was the unlikeliest thing in the world owing to the compleat contrariety of the 2 cases ; for in the warr the trouble was an excess of money but not the food to buy with it ; whereas now the trouble is an excess of food, but not the money to buy it with.”—(From “*Samuel Pepys, Listener,*” by R. M. Freeman.)

“ If a doctor were called in from another planet to prescribe for the sick world, his chief difficulty, I imagine, would be to decide which of the many diseases from which the world is suffering he would treat first. He would find himself confronted with a patient afflicted at once with a plethora of goods and with malnutrition. He would note the symptoms of abnormally high blood-pressure, accompanied by faulty circulation. He would observe that short-sightedness had

reached a point at which it was threatening the general health of the patient, and he would also be struck by the fact that a rash of Tariffitis had broken out over the patient's body from top to toe. It is possible that he might also discover signs of mental derangement leading to suspicion-mania, and I suspect that he would find that the heart was in a bad way, though not incurably so."—(Robert Lynd.)

On the productive side of our economic life within the last two hundred years many remarkable wealth-making changes have emerged. Productive capacity had previously been so long pent within narrow limits that men had come to regard economic stagnation as the natural, immutable order of things. But at length the stream burst forth. Improvement has followed improvement in the arts of agriculture, mining, and manufacture. New resources have been discovered and made available; transport is cheaper, more certain and infinitely more rapid; and we have succeeded in counteracting the tendency towards increasing unit-costs in parts of the economic field where our grandfathers despaired of success. In a word, the productive progress of the last two hundred years far exceeds the accumulated progress of all the preceding centuries of human history. Yet, on the distributive side in these last two centuries we have practically stood still. It is true that high taxation coupled with public expenditure upon the "social services" now tends to reduce the more fantastic inequalities in the

division of the aggregate income of Britain and many other countries, and that the legal minimum wage has made headway in certain directions. But such alterations as these are but minor modifications of the old framework of our antique distributive machinery. Essentially, it remains unchanged.

If such a person as Oliver Cromwell could come among us to-day, he would have little difficulty in understanding our modern methods of dividing and sharing out the world's annual income among the people. Except for a somewhat greater complexity, these methods would bear a tolerably close resemblance to the system he knew in the seventeenth century. Here are the wage-earners; here the land owners; here the merchants and commercial "interests" in general; and here the owners of shares in joint stock enterprises. But even "Old Ironside" would be overwhelmed with amazement at the multitude of modern power-machines—some of them actually in use in the agricultural industry he knew so well—but the most marvellous ones in branches of the manufacturing and transport industries which he neither knew nor dreamed of: all of them creating in their unseeing, unfeeling, inexorable machine-manner not only wealth beyond seventeenth-century dreams of avarice, but one of the most stubborn economic and social problems in all human experience.

In 1927 a German authority estimated that the existing industrial capacity of the world was about fifty per cent. greater than before the War, "with purchasing power considerably reduced." New

technical improvements crowd after one another year by year; yet so out-of-date is our mechanism of co-operation, co-ordination and control that millions of men and women are at this time so far from enjoying rapid improvement of their standards of living, that they have nearly no incomes at all. We are in the midst of a great transition period of which the much-discussed "industrial revolution" was but the first phase; a transition from hand and horse work to power work. We are face to face with the consequences of man's new-found ability to create power and to harness and control it in almost any form.<sup>1</sup> Moreover, there is no reason to suppose that this new capacity has nearly reached the limits of possible extension. The Colwyn Committee agreed with Professor W. R. Scott that it was "reasonable" to expect "a very considerable development in methods of production within a generation from now, particularly in the application of scientific discoveries to industry, with a consequent tendency to greater plentifulness of commodities."<sup>2</sup>

Now that the major problems of power production have been very largely solved, we are entering a phase in which inventors are turning their minds to the possibilities of making machines more "self-acting" or automatic. Already there are many devices which stop machines, without the intervention of human agency, when defects occur

<sup>1</sup> Electrical energy can even be accumulated and stored until required.

<sup>2</sup> *Cmd.* 2800, 1927, 237.

in the work they are doing ; and there are control mechanisms which enable one or two men to control a huge plant which performs a whole series of operations, by the manipulation of little levers on a switchboard. Here is an example of a German coking plant, cited by Mr. Walter Meakin in his book, "*The New Industrial Revolution*" :

"From the published technical information about the latest plants, opened in the spring of 1928, one gathers that, whereas before the war a typical group of ovens would produce between 700 and 800 tons of coke a day, with thirty or forty workers engaged on each shift, a daily output of from 1,700 to 1,800 tons is now obtained from fewer ovens, which are much higher, narrower, and coke more rapidly. The electrical mechanism is so complete that only five workers are engaged on each shift for all the operations, from the bunkering of the coal and filling the ovens to loading the coke into railway waggons. The fifteen workers engaged on the three shifts are thus able, solely by controlling machines and conveyors, to perform all the operations necessary in, say, 120 ovens, for producing and disposing of 600,000 tons of coke a year. It is obvious from this that wages are almost a negligible factor in reckoning costs of production. . . . From one of these latest combined plants there is a daily yield of 80 tons of tar, 27 tons of sulphate of ammonia, 20 tons of benzol, and sufficient gas to heat the ovens and leave a surplus of 14,000,000 cubic feet to be sold or used for other purposes."

And again, in connection with the utilisation of lignite :—

“The economies resulting from this system of control and regulation, by which the highest degree of efficiency can be obtained throughout the supply service, are increased by the newest methods of getting and distributing the fuel at the brown coal stations. Here one sees attained the utmost limit of mechanisation. In the main the lignite is mined from wide open quarries, and gigantic electrical scooping machines are used for removing the ‘overlay’ of earth and for taking up the lignite, which resembles fairly dry peat in texture.

“The waggons conveying the fuel from the quarry to the station are emptied automatically into enormous hoppers, from which it passes on conveying belts to the hoppers over the furnaces. One man, sitting at a switchboard and receiving communications from the power-house engineers indicating their steam requirements, controls the flow of the lignite into eighty furnaces. In the great boiler houses the personnel consists of a few mechanics. The ashes fall from the furnace bars into a funnel, where they are sprayed by water and drawn by compressed air suction through pipes back to the cleared spaces of the quarry. From start to finish no manual labour, in the ordinary accepted sense of the term, is employed in the process of winning and consuming from ten to fifteen thousand tons of brown coal per day.”<sup>1</sup>

<sup>1</sup> “*The New Industrial Revolution*,” 47-8, 148-9.

Let us turn to a different industry and consider the progress of the newspaper press from Koenig's first cylinder press, patented in 1811, which raised the output from 200 to 500 copies per hour, to such machines as the Scott extra high speed press, which can produce as many as 50,000 to 60,000 copies per hour. In this, as in other industries, invention has been piled upon invention, until it seems that no forecast as to speed and control in the near future can be confidently dismissed as too fantastic. Undoubtedly speed will increase still further; colours will be introduced, and control will be electrical and well-nigh perfect.<sup>1</sup> There will be dials and little levers under the eye of the expert, and human labour, as we have known it hitherto, will dwindle and disappear.

These instances could be multiplied many times. They are illustrative of the remarkable extent of mechanical advance made in little more than a century. What comparable changes or inventions have appeared in our methods of distributing income among the populations of the world?

Here is the Great Snag: the real root cause of our present distresses. Looking around in this modern world we see that the remarkable march of productive progress now enables us to produce more goods than ever before. So extensive are present resources of basic raw materials, and so swift and cheap is transport, that no shortage is probable. And not only can the producers of the world turn out more in quantity, but they can do it

<sup>1</sup> Cf. G. A. Isaacs, "*The Story of the Newspaper Printing Press.*"



more quickly and more cheaply and with less human labour per unit of goods or services produced.

The whole process of change has been accelerated in recent years by the rationalisation movement. Whether rationalisation increases unemployment in the long run is still a moot point. But it may be asserted with some confidence that, in the short run, rationalisation in its various forms does increase unemployment, and results in loss of income among workers displaced by it. Moreover, this loss of income does not always cease entirely if and when a displaced worker is ultimately reabsorbed into employment, for, judging by two sample investigations recently made in the U.S.A., it seems probable that some fifty per cent., at least, are forced to accept lower money incomes in their new jobs than they received formerly.<sup>1</sup> Furthermore, although

<sup>1</sup> See I.L.O. Study, "*The Social Aspects of Rationalisation*," 255-7, 263-4:—"The term 'rationalisation' itself implies a tendency to eliminate all waste, and no waste can be more serious than that resulting from unemployment. For this reason rationalisation cannot be limited to any one undertaking, or even any one industry. The only true rationalisation is that which takes in the control of all economy, both national and international. But this ideal conception of rationalisation is still far from being realised. In the meantime it must be recognised that the various measures taken in its name during the last few years in the organisation of industry have resulted in a serious degree of unemployment. It may be admitted that this unemployment is temporary. The dismissed workers have many chances of fairly speedy re-engagement, either in their old occupation or in another, in consequence of the growth in business produced by technical progress. But the effect of constant new progress being made is also that new workers are constantly being dismissed, even before the others have been able to find a new job. This appears to be what has happened during the past few years in several countries where rationalisation measures have been adopted at a very rapid pace." (p. 265).

the evidence is not conclusive, there is reason to suspect that rationalisation and mass-production methods tend to increase the instability of employment.

All displacement of labour has the effect of destroying part of the purchasing power of just those consumers without whom the full aggregate output cannot be disposed of in the time prescribed by the average optimum speeds of existing power-plants and other productive units. It is common knowledge that great masses of modern power-plants can produce at low unit-costs only if they are employed at their full or optimum capacity; and this essential condition cannot be fulfilled unless means are discovered to maintain at a maximum the purchasing powers of the peoples of the world.

The majority of mankind are engaged in those industries which produce primary commodities, or which turn primary materials into vast quantities of common commodities for consumption by the great masses of ordinary people. And unless these masses of commodities are consumed by "the Masses," they will not be consumed at all. Therefore, a few very rich persons would not be equal, *as a consuming group*, to a much larger number of people possessing between them the same aggregate purchasing power as the small group of rich people. It would be easily possible to sell to the large group of poorer people an aggregate of common commodities which it would be quite impossible to dispose of to the small rich group.

Ideas of social justice are developing. To-day

few persons or corporations would be prepared openly to defend the ruthless exploitation of native races, or the hellish evils of the "sweat shops." Workmen's compensation and various other forms of social insurance have spread remarkably among the nations in recent years. Sooner or later, this general development must reach the problem of remuneration for work, regularity of employment and the just distribution of leisure. Some little headway has already been made with the international regulation of hours of labour. The British docker has won his "tanner" and his guaranteed half-day. Over two millions of British workers are in receipt of rates of wages sanctioned, in both senses of the word, by the State; and there are millions more in similar positions throughout the world. A small acorn, admittedly: but the oak will grow *when the world awakes to the vital economic importance of mass-consumption.*

"Concentration in work is the key to variety and abundance in consumption," say the authors of a recent work on tariffs;<sup>1</sup> but this key quite often refuses to turn in the lock, and so the door to mass-consumption cannot be thrown open. It is often assumed that increased production will increase the average or general standard of life. But this can be so only if the purchasing power of *all* is increased in step with the production-power. All too often, however, this is not the case in the modern world; for increased production by up-to-date methods can and does go hand in hand with a

<sup>1</sup> Sir W. Beveridge and Others, "*Tariffs: The Case Examined.*"

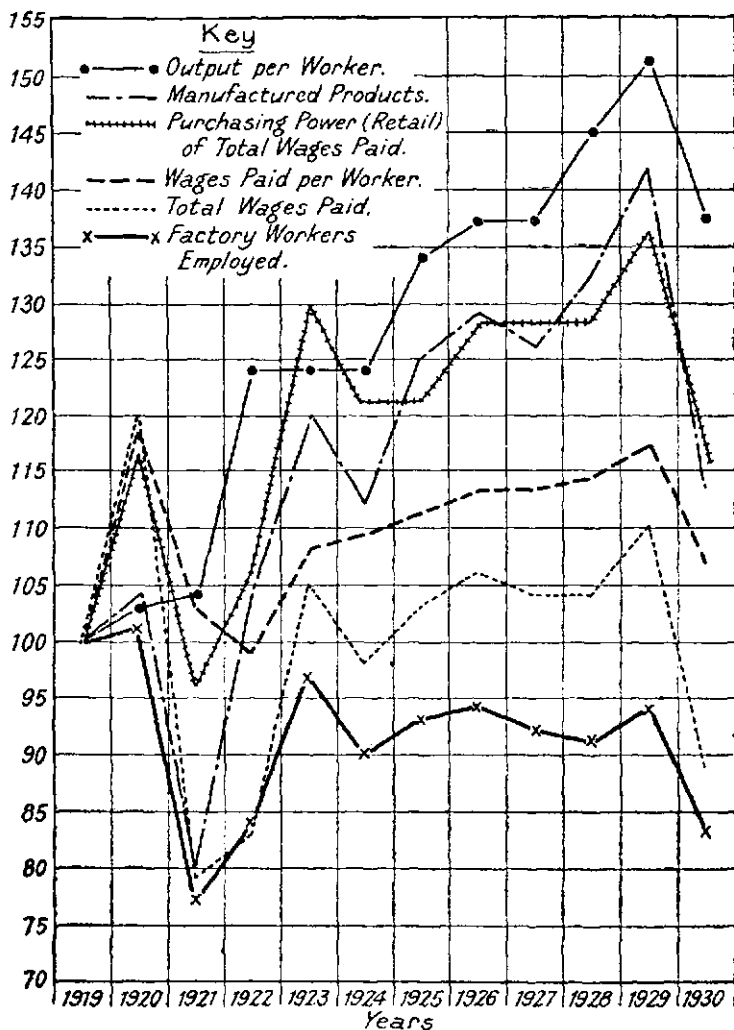
decreased demand for human labour. This in itself would be no bad thing if it did not mean loss of purchasing power among the many, whose purchasing power is already much too meagre per head and in the aggregate. It might mean more leisure, more freedom. The economic ills and agonies of the world to-day are caused by failure to find means of increasing and maintaining the purchasing power of the great mass of people, and distributing in a more even way the leisure which science and the advent and advance of power-production places before the world in such generous measure. But is this what we want? Do we look upon labour as a means or an end? Surely wisdom bids us regard it as nothing more than a means to the attainment of the good life. And, looking around upon all the labour-saving devices, all the automatic power-machinery in the world to-day, one might be led to rate very highly the wisdom of the human race. Here, one might say, is a race which knows the secret of living, having discovered how to eliminate millions of days of toil and yet produce abundance, leisure, freedom and happiness. But this would be a profound mistake. It is a forecast of what *might be*; not what *is*. Why is this?

The answer, in a sentence, is—Because men have failed to grasp the fundamental fact that in face of so much success in eliminating the necessity for human toil, it is illogical, and indeed, idiotic, to continue to demand from the majority of men just as much labour as before as a condition of granting them access to the necessaries and humbler comforts

of life. Obviously, the pursuit of such a foolish policy in the new productive order must lead to redundant commodities and, through them, to unemployment. But, without slackening our labour-eliminating efforts—which might be so beneficial, but are in fact so disastrous—we go further in the wrong direction and adopt universally a policy of expanding production and cutting down wages. This is simply suicidal; yet industrialists the world over cling to it as though it means certain salvation. No nation, they argue, can afford to lag behind any other in the race to reduce costs, in which, of course, wages are included. Even in the United States of America, although the doctrine of high wages was preached, it was not carried quite far enough in practice. Americans took no warning by the falling purchasing power of the agricultural population, or “the steady trek of workers from the country to the towns.”<sup>1</sup>

A series of index numbers based upon those published by the United States Federal Reserve Board shows that while the quantity of manufactured products rose 42 per cent. between 1919 and 1929, the number of workers employed in factories fell 6 per cent. The output per worker engaged in manufacturing during the same period rose 51 per cent., but the total wages paid rose only 10 per cent., and the wages paid per head increased only 17 per cent. But the story does not end there. If it did, the United States could not have enjoyed that considerable measure of prosperity which

<sup>1</sup> G. D. H. Cole, “*British Trade and Industry, Past and Future*,” 281.



INDEX NUMBERS RELATING TO MANUFACTURING INDUSTRIES  
IN THE U.S.A.

excited the envy of the rest of the world during the six years preceding the sudden and violent termination of the great stock exchange boom in September, 1929. The situation outlined by the indices already quoted was largely saved by the relatively low level of retail prices between 1921 and 1929, and by their quite remarkable stability during those years. Dividing the index of total wages paid in manufacturing industry in the United States by the cost of living index, we arrive at an index of the purchasing power in retail markets of the total wages paid to factory workers.<sup>1</sup> This new index corrects first impressions and shows that the purchasing power index did not begin to lag behind the output index until 1928.

These indices apply to factory work in general. Particular industries or groups of industries yield still more remarkable instances of increasing productivity. My index numbers of production of manufactures in relation to the volume of factory employment<sup>2</sup> (see Appendix B, Table III.) indicate increases of productivity of over 100 per cent. in the non-ferrous metals industry and in the manufacture of tobacco products, between 1919 and 1930, in spite of the effects of the great slump in the last year of the period. Striking increases are also to be seen in the automobile industry between 1919 and 1929, and in petroleum refining, and the manufacture of rubber products between 1923 and 1930.

<sup>1</sup> See Appendix B, Table II., col. 7.

<sup>2</sup> 
$$\frac{\text{Index of Production of Manufactures} \times 100}{\text{Index of Factory Employment}}$$

Mr. Paul Douglas has made a comparison of the *real earnings* and the physical productivity *per person employed* in the manufacturing industries of the United States,<sup>1</sup> from which it appears that at the beginning of the post-war period the real earnings index was 5 points, or 4 per cent., above the physical productivity index.<sup>2</sup> But this was an entirely abnormal position. From 1904 to 1914 inclusive, the index of real earnings was 9 or 10 points *below* that of the physical productivity of the workers; and by 1925 this divergence had increased to 23 points.

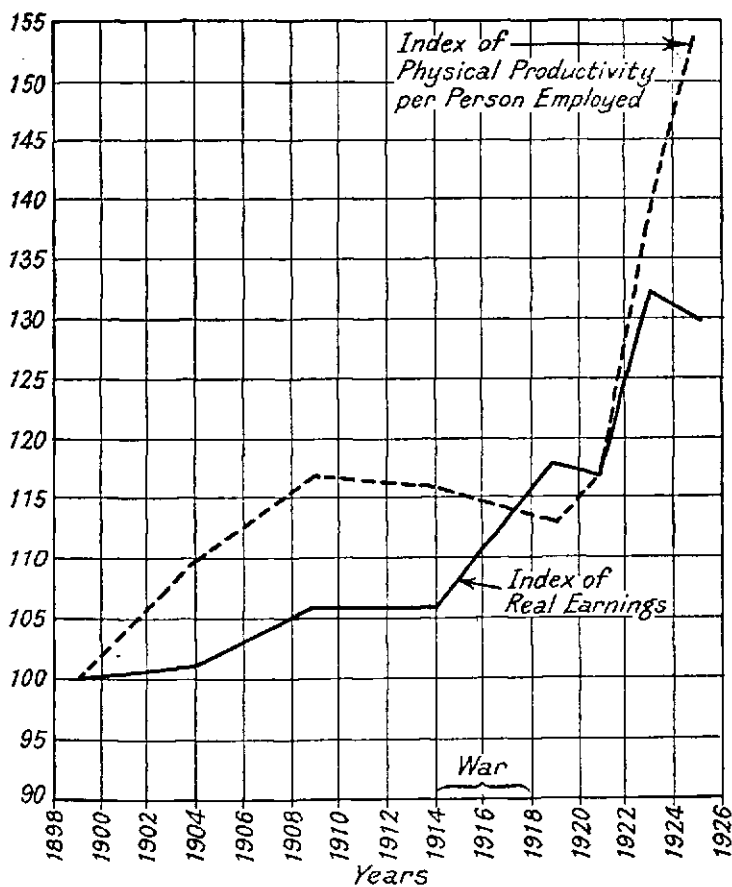
In the period 1924-29, the United States general production index rose 25 points, but employment of workpeople during the same period remained stationary, and both real and money wages lagged behind the onward sweep of highly mechanised mass-production. In a word, even in the U.S.A., *mass-production was not balanced by mass-consumption*, although the Americans probably came nearer to success in this direction than any other nation.

The pressure which forces wages down is not inefficiency of workers or employers, and not paucity of natural resources among the nations. It is the lack of balance—recurrent and devastating disequilibrium—throughout the economic system. Deplorable as this is, it has at least one hopeful side to it—the defect is not incurable. The world is not irrevocably condemned to permanent poverty

<sup>1</sup> " *Real Wages in the United States, 1890-1926.*"

<sup>2</sup> See Appendix B, Table I.





REAL EARNINGS AND PHYSICAL PRODUCTIVITY IN MANUFACTURING  
INDUSTRY IN THE U.S.A.

and incessant toil by the niggardliness of nature. Given the will, human ingenuity could find the way. But to deprive large numbers of people of their purchasing power because commodities are abundant is *not* the way. There *should* be, and there *could* be, work for all able-bodied and able-brained adults, and purchasing power and real leisure for all. Man's triumph as a wealth producer offers not only an abundance of goods, but more leisure than has ever been available before, if we can but invent ways of repeating that triumph in the sphere of wealth-distribution. Science, inventive genius, power, have presented to the world a dual gift, namely, goods and leisure; and the full enjoyment of the one depends upon the possession of the other. No person who has not worked can know and enjoy the satisfaction which follows the completion of work and the release into recreation and leisure. All play and no work, whether accompanied by loss of income or not, is as undesirable as all work and no play. The increase of leisure is excellent provided that (a) the whole of the increase is not concentrated upon a relatively small portion of the total population, (b) it does not involve serious loss of income, and (c) it is well used.

The notion that knowledge, government and leisure belong to the few, and work, and nothing but work, is for the many, is now quite properly placed by all progressive thinkers in the museum of antique ideas. If there is to be any future for political and industrial democracy, wisdom, which "cometh by opportunity of leisure," must be

widely diffused among men and women. The old ideas, which held almost unchallenged sway during the whole course of more than twenty centuries, have been, nevertheless, slowly undermined by the true spirit of equity and the spread of Democracy, and finally razed by the progress of power-production. It cannot be said that the worker engaged in repetition work in modern factories finds "all his desire in the work of his craft."<sup>1</sup> Nor can it be truthfully urged that the pressure of productive necessity must preclude the working man and woman from enjoying that modicum of leisure which leads, through education, to wisdom and happiness. Although the ancient philosophers were wrong in looking upon leisure as always and inevitably the gift of the gods to the favoured few, they were undoubtedly right in regarding leisure as the noblest thing in life. Leisure is true freedom; freedom which follows after necessary work and necessary recuperation from work; freedom to walk or ride whither a man will; freedom to visit friends and enjoy their talk and companionship; freedom to hear and to make music, poetry, prose; freedom to tend a garden; freedom to attempt to make the things one desires to make, in one's own way, taking one's own time about it. If this be true leisure, it becomes abundantly clear that its highest values can be realised only through education, and that it is a crime to withhold either education or leisure from any human being. Less application

<sup>1</sup> Dr. Ernest Barker, quoting *Ecclesiasticus*, xxxviii., 24-34, in an essay on "*The Uses of Leisure*" (1923).

of physical energy, whether in terms of force or time, is now required, on the whole, in many productive tasks. Certain kinds of machine tending, it is true, now involve less physical, but more nervous strain; but against this we are able to set the progressive shortening of the working day in many countries. Thus many of the workers in those countries have more free time and more energy left to enjoy it. But this larger residue of energy is only one particular aspect of capacity to enjoy leisure. Permanent interests and powers of appreciation must also be created and encouraged. Those uses of leisure which lead to greater enlightenment, more precise thought, and the quickening of intelligence will be those most likely to improve the economic quality of men and women, for the human tasks of the future will demand less and less physical strength, and more and more understanding, discretion, accuracy of judgment and realisation of responsibility.

That all men and women may be able to "consume" and enjoy the luxury of leisure is essentially part of my plea for mass-consumption; for leisure should be a constituent part of all modern standards of life. By leisure, however, I do not mean unemployment—that enforced idleness accompanied by partial or complete loss of income which is one of the chief scourges of this modern world. Let there be no two opinions about this. Unemployment is no luxury. The vast majority of mankind have no capacity to enjoy it. It bears, in fact, no real resemblance to leisure.

As one would expect, organised labour is abundantly alive to this vital difference, and is demanding the elimination of unemployment through (*inter alia*) the further shortening of the working day. One resolution, which is typical of many and evidence of a strong current of opinion, declares that the "irrational state of things which does not permit of the satisfaction of the most important necessities of life of masses of mankind, although there is a superabundant supply of willing labour, must be brought to an end. The first condition for this is the just distribution of work in proportion to the increased output of the individual." With such conditions in mind, the Stockholm Conference of the International Federation of Trade Unions drew up a demand for the general introduction of the 44-hour week, as the next objective in the shorter hours movement. The American Federation of Labour strongly supports the five-day week, and the 40-hour week is now frequently advocated. Further it is urged that the whole question of future reductions of hours of labour should be dealt with internationally, for proposals put forward in any particular country are likely to be met by the objection that such changes would place employers in that country at a disadvantage in competition with the employers of other countries.

The whole economic world may be likened to an irrigation farm, where everything depends upon the maintenance of a flow of life-giving water through *all* sections of the irrigation channels. What the

world needs is a constant and adequate flow of current income through the hands and pockets of every person. *But the system of income-irrigation which can accomplish this has not yet been invented.* Therefore we try to struggle along with an ancient and imperfect apology for a system, which cannot possibly cope satisfactorily with the modern volume and pressure of output. The modern world is quite unlike the ancient world which Professor Zimmern has depicted for us so vividly in his "*Greek Commonwealth*," where "patch after patch of bare hillside was drawn into the area of cultivation, terraced and ploughed and picked over that it might yield its wretched pittance," and where the fear of famine was an almost daily dread. We may say that for us the problem of wealth-production is substantially solved. There is left, however, what bids fair to be a tougher proposition, namely, the problem of wealth-distribution. It is manifest on all sides that we do not yet know how to "deliver the goods," which we can produce so efficiently, to the world's population in a steady and sufficient stream. Our most successful efforts on the production side of things are for ever in danger of frustration, not from lack of potential consumers—far from it—but from lack of purchasing power in the hands of those consumers. Our problem is to discover not how to avert famines, but how to avoid gluts. And here let us remind ourselves that a glut is not merely abundance of commodities, but abundance coupled with human inability or unwillingness to buy. The age of plenty has arrived, but poverty has not

departed. Instead, poverty and plenty sit side by side ; a grotesque, ill-assorted pair.

Among their "*Proposals to meet the Present Emergency*," the Macmillan Committee advocated that creditor countries should be more willing to buy and to lend ; which, being interpreted, means that they should try to consume more themselves and, at the same time, act in such a way as to increase the buying power of debtor nations. The Committee speak mainly in terms of gold and credit, but these are but means to the ultimate end—increased buying ; increased consumption. In rather different language the *Final Report of the Committee on Industry and Trade* (The Balfour Committee) deals with the same point :—

“ The fundamental basis of the Geneva report <sup>1</sup> is the well-known, but little regarded, truth that the commercial world forms an interdependent community the prosperity of every member of which is bound up with the prosperity of the others. This does not of course mean that no country can ever get the best of a bargain with another, or secure benefit by a trial of competitive strength. But it does mean that the predominant interest of each commercial country is the economic recovery of the world as a whole ; that it is, for example, in the long run, much more important for British trade that the purchasing power of the countries with which that trade is carried on shall be revived and increased, than

<sup>1</sup> i.e., the Report of the Geneva Economic Conference.

that British exporters should profit by adverse conditions affecting some of their competitors to displace them in some particular market.

“ Until we get firmly fixed in our minds a right appreciation of relative values, and realise, not as a matter of sentiment but of business, that our major interest as a country is identical with and not opposed to the major interest of the countries which buy our products and supply our needs, the natural inclination will be to look upon international resolutions, recommendations and conventions with at best a tolerant but languid goodwill, and without that strong, determined and sustained interest and belief which alone can enable them to be translated into practical action.”<sup>1</sup>

With the establishment of modern power-driven machine industries, not only in the United States, but in Australia, Canada, India and Japan, we enter upon a further phase of modern economic history, in which the former chief markets for the manufactured goods of European production will not only take less imported manufactures, but will, sooner or later, have, in their turn, surpluses which they will try to export. This will much enhance the danger of gluts throughout the world. It need not do so. It would not do so in a world governed by reason and really modern ideas in all departments. But it is extremely likely to do so because in all the countries, except Russia, where

<sup>1</sup> *Cmd.* 3,282 (1929), 15.



the new-fashioned power-production methods have been adopted, the old-fashioned methods of wealth distribution are retained. It is the main thesis of this book that the former and the latter are incompatible. Here we have a glaring example of what Mr. Leonard Woolf, in a happy phrase, has called "the psychological dead hand" or "the dead mind."<sup>1</sup> In our distributive system we see the mind of generations long dead still in control of the lives of the living.

If the employers, the owners of capital and other property, in this and other countries, would struggle forth from their various narrow national alleys and take a good look at the wider world, doubtless many would perceive that the right policy is to pay not as little, but as much in wages as they possibly can, so that the purchasing power of the masses of the peoples of the world may be brought as near to consuming power as present productive resources require that it should be. Perhaps they might also see that some form of international government, regulation, control—use what word you will—is essential to the prevention of periodical declines, quite serious in magnitude, in the purchasing power of the masses of producers of those primary commodities for which the demand is inelastic. In no other way can mass-production be balanced, *as it must be balanced*, by mass-consumption. But the darkness of the national alleys is such that few of their inhabitants can as yet bear to emerge and look upon the world as a whole. How long

<sup>1</sup> L. Woolf, "After the Deluge," I., chap 1.

must we wait for the advent of their emancipation from this partial blindness, this stunted vision ?

My contention is not that in the world as it is, there exists no latent power to recover from the worst depths of the present depression ; but rather that such recovery must be slow and *cannot be permanent* unless there is a widespread and whole-hearted reversal of the policy of reducing, whenever possible, the purchasing power of the masses of the people. This is as much a wrong road as the perpetuation of high protection. The way to the permanent economic salvation of the world does not lie through rising tariffs and reduced wages, but through falling tariffs and rising wages. Much of the world's economic agony would disappear as a result of the *general* spread of a high wages policy and the perfection of measures to maintain the purchasing powers of the millions of independent producers of primary commodities. In short, a general policy of high purchasing power, *steadfastly* and *progressively* pursued, would result in the much-needed mass-consumption, which would be the way out of our present distresses and a bulwark against their recurrence.

## V.

**THE NECESSITY OF HIGH PURCHASING POWER.**

INCLUDED in the intellectual inheritance which we have received from an earlier and now obsolete stage of economic evolution is the assumption that it is production which must be the prime object of human endeavour, and that consumption can be trusted to follow automatically the progress of production. If this was ever true, it is so no longer. The men and women of this modern world have come face to face with a situation of the greatest gravity: a situation which demands imperatively that henceforth as much perseverance, skill, ingenuity and inventiveness shall be devoted to the problems of wealth distribution and consumption as have been devoted in the past two centuries to the problems of production. Consumption, not production, is the final goal of all economic effort.

The Russians, it seems, unlike the rest of the world, have practically settled their distribution problem before becoming immersed in their plans for multiplying their productive power; and there is a good deal to be said for this order of progress. With the problem of income-distribution well in hand, there seems to be no reason why the productive mechanism as a whole should be forced to

slow down or stop owing to failure of purchasing power on the part of consumers. So long as the various departments of Russian agriculture and industry do not overshoot the mark in the sheer rapidity of their expansion, and set up, ultimately, excessive capacity to produce certain articles the demand for which has a low degree of elasticity, there seems to be no valid reason to anticipate the reappearance in Russia of serious unemployment, lack of command over available goods and services, or a stagnant or declining standard of life for the great majority of the Russian people. In this respect, if in no other, Russia has forged ahead of the rest of the world.

The history of the nineteenth century might be written mainly in terms of the marvels of large-scale production. It is for us to begin to write the history of the twentieth century in terms of *large-scale consumption*. Of course, by large-scale consumption I do not mean mere gluttony, but rather the consumption of greater quantities of goods and services coupled with greater variety and a much wider diffusion of necessaries, comforts and luxuries, including leisure, among all people. Let us try to appreciate all the profound thought and inventive genius which lies embodied in any modern power machine, or in any highly organised concern, such as a railway. Let this be multiplied many thousands of times—for there are, doubtless, many thousands of distinct machines and systems—and then let us ask ourselves whether there has been in the social sciences and in social organisation anything in the

least degree approaching this astounding exercise of human ingenuity? A most decided negative must be the answer, confirmed by the dismal failure in this and previous generations to prevent the recurrence of economic crises, and to find a way to apply the power of plenty to the task of removing poverty. We fail to maximise the aggregate utilities or satisfactions available to the human race, firstly, because we have not yet learned how to prevent the periodical partial unemployment of much of our capital and labour, which means that our actual production of goods and services is less than it might be, and ought to be : and secondly, because we distribute the actual output of goods and services so unequally and inequitably that many commodities—excellent as they may be in themselves—yield very little satisfaction because the persons into whose possession they pass are already plentifully endowed with goods and services of all kinds. These are, of course, but two aspects of one problem, viz., how to increase and stabilise purchasing power, and how to improve its distribution among all people. We can approach the solution of this all-important task only by clearing away a mass of intellectual lumber.

In the first place let us get rid of the idea that, in relation to persons, *wealth equals worth*. The worship of wealth *in the mass* has been one of the chief and most mischievous errors permeating modern civilisations. At first men desired the constant increase of the "treasure" of the State ; then the maximum growth of the "national wealth"

was their aim. How these objects were achieved or to be achieved mattered little, and the distribution of the treasure or national wealth among the inhabitants mattered not at all. Religious doctrine has been partly responsible for this. Some taught that wealth or poverty in this life was nothing but the Divine way of testing a soul's fitness for the life to come; while others held that sooner or later God would reward the righteous both here and hereafter. Error was added to error when men began to worship not only national but individual treasure or wealth, and when they began to speak with slightly bated breath of Mr. So-and-so being "worth" so many thousands or millions. This particular confusion of worth with wealth is one of the arch-imbecilities of this modern world, for it furnishes the convenient but completely pernicious implication that those who are nearly wealth-less are also well-nigh worthless, and therefore nobody need cudgel his brains to invent methods whereby they may be enabled to enjoy life.

The next step is to get rid of the idea that in order to obtain food, clothing, shelter, and comfort, a human being who possesses no income-bearing property, must necessarily first find full employment. To impose such a condition in this modern power-production world is to demand the performance of an impossible task as the price of the individual's right to live decently. One would have thought that by this time the world would have grasped, firmly and finally, the fact that this is an age of *mechanical* power, not *man*-power; and that in

consequence the lot of the ordinary man and woman could be, and ought to be, more pleasant and much less toilsome than ever before.<sup>1</sup> Yet we continue to make the incomes of millions of working men and women depend not upon the abundance of products now made available by modern methods of production, but upon the ability of those people to supply a demand for labour which we know to be shrinking daily.

It is a widely recognised fact that individuals tend always to take a short view in economic matters, and that we have to rely mainly upon "immortal" institutions such as the State to take the long views, to legislate and build for the future. Individuals or small economic groups are prone to snatch a profit whenever and wherever they can, without regard for the welfare of other individuals or groups, either in the present or the future. But to-day we are in a pretty pass, for, as is pointed out in Chapter III., the States of the world are lending themselves as much as ever, if not more, to the crafty cozening of vested interests; whereas the vested interests ought, on the contrary, to be over-ridden by States seeking the public good. Especially in the matter of tariffs does the present world situation require a reversal of policy. Whether we realise it or not, this generation is witnessing a gigantic struggle between the reactionary forces of

<sup>1</sup> Mr. J. M. Keynes estimates that "in quite a few years—in our own lifetime . . . —we may be able to perform all the operations of agriculture, mining and manufacture with a quarter of the human effort to which we have been accustomed." [*Essays in Persuasion*," 364.]

economic nationalism and the revolutionary forces of the new internationalism. Superficially, the fortunes of the fight seem to favour the former. Economic nationalism makes a popular, if narrow and short-sighted, appeal; and so it attracts recruits to its side without much difficulty. Parish-pump economics are comparatively easy for the plain man and woman to comprehend, and always seem of more vital and immediate importance than world economics. The latter do not seem to touch us very nearly. On the contrary, they appear to float at a great distance in a haze suggestive of unreality. Not until the full agony of a world trade depression is actually and heavily upon us do we begin to realise the perils of short-sightedness, and then we are so scared that economic statesmanship can do no better than erect even more obstacles to world trade.

The solution of our problem must be sought, however, not only along the line of freer exchange, but in the perfection of the control and co-ordination of production and credit, so that purchasing power in general may be maintained at a maximum, and production of particular products may be prevented from so far outrunning probable effective demand for them that even efficient producers see their chances of profits turned into certain losses. Careful control of currency and credit policy within each State, with the object of maintaining stability of the general level of internal prices, should form the basis of an international system designed to secure close and constant co-operation between all the



chief monetary and credit authorities in the world, and to secure stability of world prices, or at least to avert a general collapse of prices, such as that which has recently struck panic so deeply into the business circles of all nations. Confidence can be destroyed at a stroke, but its rebuilding is a long, painful process. Moreover, the preservation of stability should not prove more difficult than its restoration after a period of marked instability. Prevention, in this instance, is probably not only better, but easier than cure.

But monetary and credit reform alone cannot set all things in order. Indeed, if the introduction and maintenance of price-stability is to be the chief result of such reform, over-production of various primary commodities must be expected, for there is ample evidence of the tendency of agricultural producers to increase their output even in times of falling prices, and there is no reason to think that the lure of larger aggregate profits would not draw them if prices were stable. We need not repeat the observations set down in Chapter II. on the subject of commodities the demand for which is not elastic. Here it is that we come to the hub of these proposals, namely, the proposed *policy of high purchasing power*. The vast majority of the world's population falls into one of two great economic groups: A, the independent producers in all branches of agriculture (i.e., the non-wage-earners); B, the wage-earners, in agriculture, industry, commerce, central and local government services, etc. The purchasing power of the people in Class A depends mainly

upon the prices of agricultural produce, so that for them the policy of high purchasing power necessarily involves the international regulation of the production of *certain* commodities, based upon careful expert study of the elasticities of demand for various primary products, and designed to prevent excessive production, gluts, and the economic paralysis which follows the consequent collapse of prices. If this could be accomplished with success the extension of the high purchasing power policy to Class B would be facilitated, because a policy of high wages cannot stand alone. In order to be successful as a stimulant of purchasing power a high wages policy needs to be not only *generally extended* throughout the world's industries, but *supported* by high purchasing power widely diffused among the independent agricultural producers of the world.

The task, then, is to translate into practice this general policy of high purchasing power, in order to counterbalance the high producing power which is already a *fait accompli*. All possible suggestions to this end should be welcomed, examined thoroughly and fairly by an international authority, both as to their intrinsic merits in relation to the chief objective, and as to the possibility of fitting them in, so that they might work smoothly with such other economic inventions as may have been previously accepted and installed. So might the aggregate efficiency of the whole system be raised from time to time, just as the efficiency of production has been, and still is, continually improved.

The Victorian emphasis upon the necessity of

saving and the merits of savers—those who “abstained” from consumption—must be replaced by a corresponding exaltation of the necessity of spending and the merits of consumers, for only in this way can severe unemployment and under-employment of *capital and labour* be avoided. And for the same reason the existing eagerness to reduce wages at every opportunity must be replaced by an equal eagerness to raise them whenever possible.

“A veritable revolution,” the reader will say. Yes, indeed. My whole argument turns upon the fact that the revolution in productive methods has been so great that there is no permanent way of escape from the present *impasse* except a revolution, equally profound and far-reaching, in our distributive methods. Temporary improvements, partial in their nature, there may be; but our footsteps will still be dogged by “over-production,” which will overtake us from time to time. There will be recurrent trade slumps, unemployment, poverty: the will to consume without the power to do so, warehouses and granaries full, while great crowds of human beings go empty. An uninviting prospect.

Whether we agree or disagree upon the *details* of the remedial changes necessary now and in the future, it is of the utmost importance that all should realise and acknowledge the broad truth of the economic diagnosis here set forth, so that it may condition the whole of our thinking about appropriate remedies. Admittedly it is a tall order to ask the peoples of the world to put away all

prejudices as between nation and nation, class and class, and, facing the essential issues with clear minds, to reverse the accepted policy and practice of several centuries. Yet, if this diagnosis of the disease is not seriously at fault, no other remedy promises a pain-free future and a permanent cure.

## APPENDICES



## APPENDIX A.

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### ON DEBT AND DISARMAMENT.

THE saying that people as a whole have short memories is probably not far from the truth. Certainly in connection with public expenditure and taxation it is safe to say that while immediate burdens are widely felt and often much resented, their causes are soon forgotten. Therefore one cannot stress too strongly the twin facts that the great loads of public debt beneath which so many of the older nations are now staggering are almost entirely the legacies of past wars, and that they are invariably increased by every fresh war.

The younger nations also have their war-created or "dead-weight" debts, but the major portion of their public borrowing has been for productive, developmental purposes; in a word, not for destruction but for construction. For example, approximately 92 per cent. of the British national debt is "dead-weight" debt, while only 25 per cent. of the Australian national debt can be so described.

The British national debt was conceived and nourished upon war expenditure. The very first Act of Parliament (4 Wm. & M., c. 3; 1692) which resulted in its creation was passed for the purpose of raising £1,000,000 "towards carrying

on the war against France." The financial effects of the wars in which England engaged during the eighteenth century made inevitable the existence of a large perpetual funded public debt. After the war which concluded with the Peace of Ryswick in 1697, our national debt amounted to some £21,000,000; in 1738 it totalled over £46,000,000, and after nine years of further European warfare it had risen to well over £75,000,000 (1748). But this growth was insignificant by comparison with what was to follow in the second half of the eighteenth century. The Seven Years' War added £85,000,000 to the Debt; at the termination of the War of American Independence a further £100,000,000 had piled up; and, worst of all, the capital of the Debt increased by nearly £300,000,000 between 1793 and the close, in 1802, of that particular phase of the expensive and exhausting struggle with France. In the year 1802 British taxpayers found themselves saddled with a national debt amounting to £523,274,000, carrying an annual interest charge of £19,481,250; and this despite various efforts made in years of peace to pay it off.

The reason for the failure of these efforts to stem the rising tide is plain. It is always in war-time that public expenditure greatly outstrips public revenue. Experience shows that even in times of peace a deficit is always a possibility, for as Adam Smith remarked, "during the most profound peace, various events occur, which require an extraordinary expense"; but in war time a deficit is a certainty and borrowing (or, perhaps, currency inflation, or



both) inevitable. And the longer war lasts, the more costly as a rule does borrowing become. The "modern governments" of to-day do not differ from the eighteenth-century "modern governments" referred to by Adam Smith as being "both unwilling and unable to increase their revenue in proportion to the increase of their expense. They are unwilling for fear of offending the people, who, by too great and sudden an increase of taxes, would soon be disgusted with the war; and they are unable, from not well knowing what taxes would be sufficient to produce the revenue wanted." Moreover, when war breaks out "an immediate and great expense must be incurred in that moment of immediate danger which will not wait for the gradual and slow returns of new taxes. . . . The necessities of the State render government upon most occasions willing to borrow upon terms extremely advantageous to the lender." <sup>1</sup> Also, immediately after a war, there is invariably an abnormal volume of floating debt much of which must be added to the permanent public debt by being funded on the best terms then obtainable.

Early in the eighteenth century financial stringency due to war expenditure led to the issue of six State lotteries by means of which the English government received £9,000,000 immediately by creating a public debt of £11,723,000. In 1760 £8,000,000 was raised by a loan coupled with a lottery which added £8,240,000 of 4 per cent. stock to the public debt. Until 1784 these State lotteries

<sup>1</sup> "Wealth of Nations" (1776), Bk. V., ch. iii.

were frequently resorted to as the extra bait necessary to induce otherwise reluctant lenders to take up State loans or to induce holders of public debt to assent to certain conversion schemes. These lotteries and the borrowing at a discount which occurred when government credit was at a low level, added enormously to the size of the public debt. Thus, in 1781, subscribers of an aggregate sum of £13,500,000 received £20,250,000 in stock; and in 1782 £21,000,000 was added to the public debt in return for a loan of only £12,000,000 in cash.

The national debt of Great Britain increased from £244,000,000 in 1793, when war broke out with Revolutionary France, to £523,000,000, in 1802; but only about two-thirds of the increase had actually been received in cash by the government. This was due to the policy of issuing loans at nominal rates of interest below the current market rate. For example, £150 of 3 per cent. Stock might be issued for each £100 subscribed, instead of issuing, let us say, a 4½ or 5 per cent. stock at par. It was asserted that the government could borrow on better terms in the 3 per cent. stocks because of the public preference for that particular denomination. There was also the attraction of the prospect of receiving more capital (in stock) than one actually subscribed (in cash). But whatever the immediate advantages of this policy may have been, it meant that the government would not be able, later on, to take advantage, by means of conversion operations, of any post-war

drop in the current rate of interest unless that rate fell below 3 per cent.

The nineteenth century opened with fifteen years of almost uninterrupted warfare and unprecedented increase of the national debt. By January, 1810, five and a half years before the final defeat of Napoleon, the Debt amounted to nearly £812,000,000. "Part of this Debt," wrote Cobbett at the time, "is what is called *funded* and a part *unfunded*; part is called Irish Debt, part Emperor of Germany's Debt, and another part the Prince Regent of Portugal's. But *interest upon the whole of it is payable in England*; and that is all that we have to look after; it being of no consequence what the thing is called, *so that we have to pay for it*. So that we are taxed to pay the interest of it, what matters it to us what names the several parts of it may go by?"<sup>1</sup> In 1815, when the war against Napoleon ended, the Debt stood at £834,260,000 and the annual interest charge at £31,414,000. Fortunately, Britain was involved in wars much less in the nineteenth century than in the eighteenth. On the other hand, wars were steadily growing more and more costly; capable of cancelling in four years the debt reductions of forty. Cobbett had remarked upon this in 1810—"The year 1760 was a time of war as well as the present; but, as we see, a year of war now costs 82 millions" which is "20 millions more than a year of war cost only ten years ago."<sup>2</sup> About the same time, Robert Hamilton called attention to one of the causes of

<sup>1</sup> Cobbett, "*Paper against Gold*," Letter III.

<sup>2</sup> *Ibid.*

this: "Since the system of the balance of power has prevailed, large sums have been granted by more opulent states, as subsidies to others supposed to be interested in the same common cause."<sup>1</sup> But for many years after this Britain, as though she dimly realised that the game was not worth the candle, did not engage in any military operation on a grand scale. Then came the Crimean War (1854-6) which, in spite of the government's desire to avoid borrowing, if possible,<sup>2</sup> added over £32,000,000 to the capital of the Debt, and £1,460,000 to the interest charge, to say nothing of sundry obligations as to the repayment of loans. The minor wars in China and South Africa between 1898 and 1902 cost approximately £217,000,000, of which £67,500,000 was met out of revenue, leaving £149,500,000 as the net addition to the funded and unfunded debt. In 1903, less than a year after the close of the South African War, the Chancellor of the Exchequer told Parliament that, "If the debt is not added to, and if the annual charge is maintained at the proposed amount, the whole of this gigantic debt can be wiped out within fifty years from now." But what gigantic "ifs"! The country was even then on the eve of an era of intensive competitive arming and in less than twelve years—much less fifty—was in the throes of the most widespread, ruthless and costly war in all history; a war which, in spite of heavy taxation, resulted in the addition of over

<sup>1</sup> "An Inquiry concerning the Rise and Progress . . . of the National Debt of Great Britain and Ireland" (1813).

<sup>2</sup> "Hansard," CXXXI. (1854), 373.

£7,000,000,000 to the British national debt and £325,000,000 to the annual interest charge; and which added numerous maturing debts to the other embarrassments of post-war governments. To put it in another way we may say that in four years the Debt was multiplied by eleven and the annual charge by fifteen.

Let us pass now from this great bulk of dead-weight debt to examine a little more closely the annual burdens imposed upon the nation. To the total annual charge in respect of the Debt, which absorbs some £320,000,000 of the public revenue every year, we must add the present expense of the "defence" forces. In 1871, Mr. Robert Lowe's budget provided £26,208,000 for the army and navy. In 1909, Mr. Lloyd George's estimate for this item was £59,000,000. For the financial year 1913-14 (ending on April 5, 1914) the defence forces cost £77,000,000. Immediately after the war (financial year 1919-20) the army, navy and air force cost nearly £503,000,000; and the corresponding figure in 1921-2 was over £207,000,000. Six years after the end of the war we find Mr. Snowden budgeting for over £115,000,000 for the defence services, and even in 1931-2 the government was committed to the expenditure of over £111,000,000.

On January 6th, 1926, there appeared in the "*Daily News*" a leading article on "Unmaking War," in which the writer expressed the opinion that "Locarno marks at least a beginning of the 'moral' movement, and there is no insuperable reason, in spite of practical difficulties, why we

should not proceed as soon as possible with the diminution of the actual means of making war, for the cost of maintaining extravagantly large armies and navies is not only a serious obstacle to financial recovery, but is also a positive incentive to bellicose attitudes in international intercourse." This article contained a reference to the next column but one, where Mr. Hector Bywater, the naval expert, told us that "the 10,000-tons Washington Conference type of cruiser will cost about £2,500,000 to build and £238,000 a year to maintain; it will require about 550 officers and ratings to man it, and it will stand every chance of being sunk outright in its first engagement." If, however, it should never go into a "first engagement" it will be scrapped as obsolete within a very few years.

The credit crisis of 1931 filled the public press and diverted public attention from the question of disarmament. Yet, in fact, public finance, debts, credit, armaments and wars are as closely knit with each other as the threads of a new garment. Even in time of peace the credit of civilised and powerful States can be seriously impaired because their budgets are so burdened with the borrowings of the past that they cannot support the charges incurred by borrowings, however essential, in the present.

It is sometimes argued that the existence of the Debt does not matter, since the British national debt was borrowed very largely from British people; we are only owing these colossal sums to one another and paying to one another, in effect, the interest thereon. While I do not deny that if you

*must* have a public debt, it is better that it should be internal rather than external, I think it is a mistake to gloss over two important facts: (a) that nearly the whole of the enormous sums borrowed were applied to unproductive purposes, and the nation is receiving no income in respect of them to-day; (b) income is received, nevertheless, by the holders of the national debt, which really means that, at the present time, some £320,000,000 must be drawn off every year from incomes derived from work or from investments in productive concerns, and distributed (*via* the government departments concerned with taxation and the national debt services) to individuals and corporations not as remuneration for assisting the production of real wealth, but according to the amount of their holdings of State securities. This vast annual transfer from the active to the passive elements in our community cannot be compatible with good economic health.

Since the autumn of 1929 every nation in the world has been in the grip of the deepest trade depression on record. As prices have tumbled down, the real burdens of debts, both public and private, have increased. The yields of taxes have declined and governments have been brought face to face with prospects of gigantic deficits in national accounts. By placing increased and well-nigh intolerable burdens upon their long-suffering citizens some have just scraped through "on the right side." Others have not. Yet all the States at present maintaining large armed forces might have come through without great difficulty if they had shown

themselves as anxious and ingenious to devise the removal of tax-burdens from their people as they have been in devising and imposing new ones. In particular, relief from the burden of armaments would have been a clear gain, unaccompanied by any check to real progress, such as is inevitable when "cuts" are made in constructive social services, like education, public health, and various branches of scientific research.

For Great Britain the estimated national expenditure in the year 1931-2 totalled some £750,000,000, nearly £500,000,000 of which was absorbed by the following items:—

|  | £ millions.   |
|--|---|
| National Debt Interest and Management, . . . . . | 303   |
| National Debt Sinking Fund, . . . . .            | 32.5 <sup>1</sup>                                     |
| War Pensions, . . . . .                          | 50  |
| Defence Services, . . . . .                      | 111   |
|  | <hr style="width: 100%; border: 0.5px solid black;"/> |
|  | 496.5   |
|  | <hr style="width: 100%; border: 0.5px solid black;"/> |

What are the prospects of relief in the near future from the pressure of this incubus?

In the first place, the war pensions item will gradually decrease with the passing of the pensioners in the normal course of nature, provided that we do not become involved in another war in the meantime. Also, any appreciable reduction of the principal of the debt is dependent upon the enjoyment of a prolonged period of peace, unmarred by growing expenditure upon competitive armaments.

<sup>1</sup> Reduced from £52,000,000 in the Supplementary Budget for 1931-2.



Past experience shows that unless war and armaments are finally abolished there is little chance that peace-time efforts to reduce the capital of the public debt will meet with more success than the labours of Mrs. Partington with her mop; but some relief has already been gained by reducing the interest charge. During the years immediately following the end of the war of 1914-18 interest rates ruled high and no advantageous conversions could be made. Between 1920 and 1926 the government's conversion offers, mainly to holders of maturing stocks, resulted in an increase of the capital of the Debt by as much as £131,000,000, and also a net increase in the annual interest charge of £176,000. On the other hand, the saving on redemption premiums (£6,057,000), less the cash payments to induce holders of certain stocks to convert (£5,480,000), gave a net saving of £577,000. Since 1924 the national income per head in this country has undoubtedly fallen, and the real burden of the debt charge has grown heavier and heavier. Therefore the recent (1932) reduction of interest from 5 per cent. to  $3\frac{1}{2}$  per cent. upon £2,000,000,000 of stock, which saves £30,000,000 annually (less whatever loss of income tax and surtax the Exchequer sustains as a result of the reduction of interest payments) was very welcome. The reduction amounts to approximately ten per cent. of the interest and management charge.

Bearing in mind past experience and looking to the future, it is much to be desired that a new type of government stock should be created, the

interest and capital of which would be paid, not as at present, always in the same quantities of money, but on each occasion in such quantities of money as would always give to the holders the same amount of command over commodities (*i.e.*, purchasing power). Recent improvements in the construction of index numbers have prepared the way for proposals of this kind. Such an arrangement was foreshadowed by the late Dr. Marshall as long ago as 1887 in his Preliminary Memorandum to the Royal Commission on the Values of Gold and Silver,<sup>1</sup> and elaborated by him in 1923.<sup>2</sup> Another Cambridge economist, Mr. J. M. Keynes, put a similar proposal to the (Colwyn) Committee on National Debt and Taxation.<sup>3</sup> Conversion of government debt into stock of this type would eliminate the irksome increase of the taxpayer's burdens in periods of falling prices, and the shrinkage of the government stockholders' real incomes in periods of rising prices.

There remains to be considered our national expenditure upon "Defence Services," which brings us to the international problem of disarmament. The urgency of this matter can scarcely be overstated. Delay is dangerous not only for financial reasons, but because Time itself is against Disarmament. The generation of men and women who knew war at first hand is passing away before the rise of a generation to whom war is not a ghastly and bitter experience, but a rather glorious adventure gilded by the imagination. Year by

<sup>1</sup> A. Marshall, "*Official Papers*," 31.

<sup>2</sup> "*Money, Credit and Commerce*," 36-7.    <sup>3</sup> *Cmd.* 2800 (1927), 343.

year these young people are steadily succeeding to the status of citizenship and (as their numbers increase relatively to the preceding generation) to a position of greater influence in their respective States. Therefore, the present position of public finances, both in Britain and abroad, and considerations of economic expediency, as well as humanitarian motives, should spur us on to fresh efforts to bring into operation as soon as possible a scheme of progressive disarmament among the nations. To seek security and peace by preparing for war is to create deliberately a precarious position, both financially and politically. The only sure way to national security and international peace is to ensure that no nation shall possess the means to make war. This also is the way to financial security; for reduction of armaments, leading ultimately to the abolition of war, would reduce the burden of taxation, prevent the increase of war-created dead-weight public debt, and permit existing debt to be more easily carried and reduced.

Since the time element is important it is highly desirable to proceed by methods free, as far as possible, from unnecessary complications. For example, it will be well to recognise the futility of trying to distinguish and differentiate between offensive and defensive weapons. It is the fashion for every nation at war to maintain stoutly that it is merely engaged in defensive operations. If it is not defending its own territory, it is defending its "interests," or those of its nationals or allies, on somebody else's territory. When any nation strikes

the first blow, when it puts its armed forces over another's frontier before war is actually declared, it does so only in sheer self-defence, to forestall the dastardly attacks contemplated by its opponent! Recent disarmament negotiations show that almost every nation is concerned to keep certain fighting forces or weapons, but is prepared to agree to the limitation or prohibition of certain others. The trouble is that these forces or weapons vary from nation to nation, so that no considerable common measure of agreement seems likely to be achieved. Therefore, because of the importance of securing substantial results without delay, and because of the comparative simplicity of the method, it seems clear that the chief aim of future Disarmament Conferences should be progressive budgetary limitation of armaments, tapering off finally to complete disarmament. Such limitation of the amounts of public money to be spent upon armed forces would (pending complete disarmament) leave each nation free to provide itself with such types of weapons and forces <sup>1</sup> as seemed most suitable to its particular situation. No Disarmament Conference would be faced with failure by having to secure agreement upon these supremely difficult and technical matters. The budgetary form of limitation is also to be recommended because it provides no incentive to build, at enormous cost, weapons of the "pocket-battleship" type, which greatly increase the nervousness of nations.

If we turn to the particular problem of the

<sup>1</sup> Excepting, of course, those prohibited by international law.

cancellation of war debts due to the United States of America, we find the key to the position in the attitude of European States to disarmament, or at least to limitation of armaments. In present circumstances, the only argument upon which the Americans may be persuaded to cancel war debts is that by so doing they will help to relieve financial burdens which are impeding the world's economic recovery. The Americans fear, however, that any relief so afforded at their expense may merely enable European nations to increase their expenditure on armaments; in which case the Americans' concession would have been granted in vain. Before cancellation of war debts can receive serious consideration in America, the American people must at least be thoroughly convinced of Europe's genuine desire for peace and peaceful reconstruction. Nothing short of definite proofs of progress towards disarmament will suffice.

## APPENDIX B.

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### STATISTICS.

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#### TABLE I.

A COMPARISON OF REAL EARNINGS AND PHYSICAL  
PRODUCTIVITY PER PERSON EMPLOYED IN  
MANUFACTURING IN THE UNITED STATES.

| Year.     | Index of Real<br>Earnings. | Index of<br>Physical Pro-<br>ductivity per<br>Person<br>Employed. | <i>Percentage<br/>Divergence of<br/>Index of Real<br/>Earnings from<br/>Index of<br/>Productivity.</i> |
|-----------|----------------------------|---|--|
| 1899, . . | 100                        | 100   | ...  |
| 1904, . . | 101                        | 110   | - 8  |
| 1909, . . | 106                        | 117   | - 9  |
| 1914, . . | 106                        | 116   | - 9  |
| 1919, . . | 118                        | 113   | + 4  |
| 1921, . . | 117                        | 117   | 0  |
| 1923, . . | 132                        | 138   | - 4  |
| 1925, . . | 130                        | 154   | - 16   |

TABLE II.  
INDEX NUMBERS RELATING TO MANUFACTURING INDUSTRIES IN THE  
UNITED STATES.

| Year.  | Manufactured<br>Products.<br>(1) | Workers<br>Employed<br>in Factories.<br>(2) | Output<br>per<br>Worker.<br>(3) | Total<br>Wages<br>Paid.<br>(4) | Wages<br>Paid per<br>Worker.<br>(5) | Cost of<br>Living<br>Index<br>[U.S.A.]<br>(6) | Index of Pur-<br>chasing Power<br>in Retail Mar-<br>kets of Total<br>Wages Paid.<br>(7) |
|--------|----------------------------------|---|---------------------------------|--------------------------------|-------------------------------------|---|---|
| 1919 . | 100                              | 100   | 100                             | 100                            | 100                                 | 100   | 100   |
| 1920 . | 104                              | 101   | 103*                            | 120                            | 119                                 | 103   | 116.5   |
| 1921 . | 80                               | 77  | 104                             | 79                             | 103                                 | 82  | 96  |
| 1922 . | 104                              | 84  | 124                             | 83                             | 99                                  | 78  | 106   |
| 1923 . | 120                              | 97  | 124                             | 105                            | 108                                 | 81  | 130   |
| 1924 . | 112                              | 90  | 124                             | 98                             | 109                                 | 81  | 121   |
| 1925 . | 125                              | 93  | 134                             | 103                            | 111                                 | 85  | 121   |
| 1926 . | 129                              | 94  | 137                             | 106                            | 113                                 | 83  | 128   |
| 1927 . | 126                              | 92  | 137                             | 104                            | 113                                 | 81  | 128   |
| 1928 . | 132                              | 91  | 145                             | 104                            | 114                                 | 81  | 128   |
| 1929 . | 142                              | 94  | 151                             | 110                            | 117                                 | 81  | 136   |
| 1930 . | 114                              | 83  | 137                             | 89                             | 107                                 | 77  | 115.6   |

TABLE III.

INDEX NUMBERS OF PRODUCTION OF MANUFACTURES IN RELATION TO THE  
VOLUME OF FACTORY EMPLOYMENT IN THE UNITED STATES.*(By Groups of Industries).*

1923-25 = 100.

| Year. | Iron and Steel. | Textiles. | Food Products. | Paper and Printing. | Auto-mobles. | Non-ferrous Metals. | Petroleum Refining. | Rubber Products. | Tobacco Products. |
|-------|-----------------|-----------|----------------|---------------------|--------------|---------------------|---------------------|------------------|-------------------|
| 1919  | 82              | 94        | 86             | 78                  | 60           | 59                  | ...                 | ...              | 73                |
| 1920  | 93              | 86        | 81             | 84                  | 66           | 64                  | ...                 | ...              | 78                |
| 1921  | 71              | 93        | 87             | 79                  | 77           | 52                  | ...                 | ...              | 77                |
| 1922  | 98              | 102       | 99             | 91                  | 92           | 77                  | ...                 | ...              | 83                |
| 1923  | 100             | 100       | 97             | 95                  | 101          | 88                  | 84                  | 84               | 90                |
| 1924  | 92              | 96        | 103            | 99                  | 98           | 104                 | 103                 | 107              | 100               |
| 1925  | 108             | 104       | 100            | 106                 | 101          | 108                 | 113                 | 109              | 110               |
| 1926  | 112             | 106       | 99             | 110                 | 103          | 113                 | 115                 | 110              | 123               |
| 1927  | 107             | 129       | 97             | 109                 | 94           | 112                 | 124                 | 115              | 125               |
| 1928  | 125             | 113       | 100            | 116                 | 101          | 119                 | 149                 | 132              | 132               |
| 1929  | 131             | 119       | 97             | 120                 | 118          | 124                 | 145                 | 125              | 146               |
| 1930  | 109             | 107       | 98             | 111                 | 104          | 126                 | 147                 | 120              | 151               |





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