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SOCIALISM IN ACTION

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SOCIALISM AND THE CONDITION OF THE PEOPLE

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Socialism and the Condition of the People

THE official Labour Party Policy on various aspects of Employment, Banking, Finance and Investment, and the Proposal to Raise the School-Leaving Age is set out in the following Report. The Report was adopted, subject to a number of amendments which have been included, by the Annual Conference of the Party held at Hastings in October, 1933.

TRANSPORT HOUSE
SMITH SQUARE
LONDON, S.W.1

May, 1934

SOCIALISM AND THE CONDITION OF THE PEOPLE

THE ECONOMIC SITUATION

During recent years the world has witnessed a rising volume of unemployment on a scale never known before. In the industrialised countries there are no fewer than 20,000,000 workless, amongst them large numbers of the most highly-skilled artisans. Unemployment, once a problem primarily of the manual and worse-paid workers, has spread its tentacles to other classes of employees.

In Great Britain the registered unemployment rose during the four years between March, 1929, and March, 1933, from 1,203,785 to 2,821,371, and at certain periods has been over 3,000,000. The recorded figures of unemployment do not, however, indicate the full magnitude of the problem. Unemployed workers, driven out of unemployment benefit and deprived of transitional payments by harsh administration, and with little prospect of employment in front of them, often ignore the Employment Exchanges. Large numbers of workers who are outside the Unemployment Insurance scheme do not, as a rule, register their misfortune at the Exchanges. Unemployment exists amongst agricultural workers and domestic servants, but the actual volume is unknown. Unemployment has spread to suburbia, amongst the professional classes for whom no provision is made under the National Unemployment Insurance Acts. No one can say with certainty how many workless people there are in Great Britain to-day, but the number must be far larger than the figures recorded on the unemployed register.

In Germany during the same period it mounted from 2,500,000 to 5,750,000. At the end of 1930 it was estimated that there were 5,700,000 unemployed in the United States. By March, 1933, the number had grown to over 13,000,000; and the same story is to be told of almost all countries.

This shrinkage of the volume of employment is a reflection of the shrinkage of trade, not only in this country, but in the world as a whole. The figures for that part of the world's trade which crosses the frontiers of States (so far as they are available) show a decline in 1932, as compared with 1931, of 24.6% in the value of imports for home consumption and of 24.8% in the value of domestic exports. As compared with 1930, the corresponding declines were 43.5% and 44.8%, respectively; whilst, as compared with 1929, the value of imports fell by 54.1% and of exports by 56%.

In recent years there has been a serious contraction in the volume of industrial production, and since 1929 there has been a continuous decline in practically all countries. Between 1929 and 1932 the shrinkage amounted to no less than 46% in the United States; it amounted to 40% or more in Germany, Canada and Poland; to between 30% and 40% in Belgium and France; and to 17% in the United Kingdom.

The contraction of world trade made itself felt during the early days of the late Labour Government. It was recognised even then as an "economic blizzard"; though within a few weeks of taking office, the Labour Government had to face a Vote of Censure on the ground that it had not solved the Unemployment Problem!

When the "National" Government assumed control the news went forth that the world was in the throes of "a world-wide crisis." The new Administration had come into existence to grapple with this problem, but subsequent events have shown that it has lamentably failed.

THE CAUSES OF UNEMPLOYMENT

After two years of "National" Government the problem remains more acute than ever. The present volume of unemployment is due to four main reasons.

(1) In the first place, before the War, in the piping times of peace, the "stagnant pool" of idle labour was a feature of our economic organisation. Though it shrank when times improved, and became swollen in times of depression, it was never totally drained, and so long as the capitalist system exists, unemployment will be an ever-present feature of our economic life.

(2) But, in addition to the standing army of idle labour which a disorganised capitalist system requires, the Great War threw out of gear the normal working of the economic system. The enormous destruction of material wealth impoverished the belligerent countries, and the cessation of the greater part of the world's international trade forced nations back on themselves to produce, under any economic circumstances, goods which they had hitherto imported.

(3) In the third place, to the follies of War were added the follies of the Peace Treaties. The break-up of large economic units, the development of intense economic nationalism, with its policy of tariffs and restrictions, and the failure of the statesmen of the world to deal with the monetary problem helped to intensify the gravity of the economic situation.

(4) Further, the Bank of England, by its deflationary policy in 1920, brought prices tumbling down; and this was repeated in 1925, when the Gold Standard was restored by the Conservative Government of the day. These monetary mistakes had repercussions in all countries, but were most acutely felt at home, so that when the world depression began in 1929 Great Britain started further behind and had no reserve power with which to meet it.

(5) To these factors must be added the growing menace of what is called "technological" unemployment, due to the rapid advance of mechanisation. When, over a century ago, steam-driven machinery replaced manual labour in many industrial processes, it was argued that mass production so cheapened products and expanded their consumption that more labour was ultimately absorbed. But these conditions no longer obtain to-day. Our capacity to produce has advanced by leaps and bounds, and has not yet reached its zenith. Under a chaotic capitalist system, and with an out-of-date and unworkable monetary and credit system, these new technical improvements lead to an increasing volume of unemployment.

THE FAILURE OF THE "NATIONAL" GOVERNMENT

If the "National" Government, with its enormous majority and virtually unrestricted power in the country, meant to deal with this problem, it was bound to face the principles on which the existing order of society was built. It has, however, refused to grapple with the fundamental causes of our economic misfortunes. By its very nature, it inevitably turned to the Conservative method of approach and is endeavouring by time-worn methods to maintain the fabric of the capitalist system.

Without any mandate from the people, and, indeed, without that full inquiry which it promised as a preliminary to action, the "National" Government in the space of a few short months converted this country into a highly-protected

State. Protection has long been the Tory panacea for unemployment. Though the last Conservative Government, in common with the other great States in the world, approved the principle that in the interests of international trade, the great need was for fewer and lower tariffs, the Tory Party dominating the "National" Government imposed upon the nation its pet specific. To-day, however, no responsible Tory leader holds out any hopes of Protection solving our economic difficulties, and, indeed, the one claim which they make is that the building of tariff walls here is only of value in so far as it leads to the reduction of tariff barriers and restrictions elsewhere.

Its next great line of attack on the unemployment situation was the enforcement of economies in almost every direction. The net effect of this policy of restriction of useful public expenditure has been to impoverish the people, to restrict their purchasing power, and thereby to add to the numbers on the registers of the Exchanges.

The "National" Government has failed. It cannot cope fundamentally with the deep-rooted economic evils which are to-day inflicting misery on the world. Its attempt to maintain Capitalism will prove to be futile, and within the four corners of the existing order there can be no solution of the grave difficulties into which we have fallen as a result of the workings of a system of private enterprise and the shortsightedness of the world's politicians.

Even if Capitalism were sufficiently enlightened to attempt to put its house in order, it could not hold out to the people of this or other countries any certain hopes of a continuously rising standard of life and steady economic progress. It cannot be too strongly emphasised that so long as the capitalist system exists and the profiteer levies his heavy toll on the production of the workers, there are very strict limits placed on both economic progress and the provision of those social services which are essential to a civilised standard of life. Even a powerful Labour Government with a majority, operating within the confines of a capitalist system during the transitional period, could not obtain for the masses of the people that full measure of justice to which they are entitled.

LABOUR'S GOAL—SOCIALISM

Our task, therefore, is that of converting an out-worn system which no longer meets the needs of the time into one which will ensure security, prosperity and freedom for the whole of our population.

In addition to the need for drastic reorganisation at home, it is essential that this country should take its place in the councils of the nations in order to urge and secure a maximum of international economic co-operation on the basis of a secure peace. The "National" Government has failed in this respect, as it has in others. Labour alone can take that moral leadership in the world which will ensure the rescue of mankind from the trammels of competition and private enterprise on the one hand, and from the menace of warfare on the other.

The supreme task which confronts the world is that of economic reorganisation. So far as this country is concerned, it is clear that such far-reaching changes are also imperative in the national interest, but they cannot be expected from any Government, which vacillates between inaction and reaction.

The need is for a coherent and comprehensive policy of economic reconstruction both at home and abroad. Chaos and disorganisation must be replaced by ordered planning. *The only basis on which ordered planning of industry and trade can be carried out is that of public ownership and control. Neither competition nor private monopoly has proved able to rescue the nation from its plight.*

The one sane alternative which is left is Socialisation.

The Labour Party is working to secure an effective Parliamentary majority through which alone it can begin its mission of reconstruction on Socialist lines. It recognises the magnitude and the difficulty of its task. It appreciates the depths of disintegration into which our whole economic system has fallen. It realises that its path is cumbered with the debris of the ages. It apprehends that pitfalls will be dug for it by the defenders of the dying system. It knows that the fabric of our national life is honeycombed with the weaknesses and meannesses inherent in the capitalist system.

Nevertheless, given adequate power, Labour is prepared to assume full responsibility, and, without promising a new heaven and a new earth in the twinkling of an eye, it will steadfastly work to re-establish the life of the community on firm Socialist foundations, realising all the difficulties, but secure in the knowledge that the Movement, whilst rightly demanding a vigorous attack on the problems of society, will not expect impossibilities. For it is clear that the full results of Socialist policy cannot come until after the period of transition from Capitalism to Socialism.

It is not possible at this stage to place all the varied tasks which will fall to be carried out by a Labour Government in order of priority. Many of them can, no doubt, be carried out swiftly and simultaneously. But even with the best will in the world, the whole programme of the Party cannot be carried into effect by a single legislative Act or by a stroke of the pen.

Moreover, the precise order in which the issues facing a Labour Government are to be tackled must depend in some measure on the circumstances of the time. It is the intention of the Party when in office to proceed without delay and with the greatest vigour to translate its policy of Socialism into practice, and at the same time, during the period of transition, to ameliorate the lot of the people.

The Labour Party has already declared its policy regarding the socialisation of certain industries and services. At the Annual Conference at Leicester (1932), it reaffirmed its conviction that "ordered progress and prosperity can only be secured by a bold and comprehensive policy of national planning and development on Socialist and Co-operative lines by the extension of democratic ownership and control of the means of life."

Comprehensive statements were adopted regarding "Currency, Banking and Finance," "The National Planning of Transport," "The Reorganisation of the Electricity Supply Industry" and "The Land and the National Planning of Agriculture."*

These documents were a first instalment of the Party's re-statement and elaboration of its Policy. Since the last Conference, some of these questions have been further examined.†

INDUSTRIAL POLICY

As has already been pointed out in an earlier section, there has in recent years been a phenomenal increase in productive capacity. The Labour Party holds that once this power to produce is released, it should be utilised for the benefit of the whole people—both producers and consumers. The latter are entitled to obtain goods and services sufficient to satisfy their needs without the imposition of unnecessary and unproductive charges, and to enjoy a fair share of the advantages as regards quality, range and price of commodities accruing from improved methods of production and marketing.

* *Currency, Banking and Finance.* (1*d.* Post free 1½*d.*)
The National Planning of Transport. (2*d.* Post free 2½*d.*)
The Reorganisation of the Electricity Supply Industry. (2*d.* Post free 2½*d.*)
The Land and the National Planning of Agriculture. (2*d.* Post free 2½*d.*)
(Published by the Labour Party, Transport House, S.W.1.)

† See especially in later sections on "Financial Institutions."

Producers are also entitled to a fair share of the advantages to be derived from improved processes and distribution. The forms which these benefits will take fall into four categories:—

(1) A higher standard of remuneration;

(2) economic security;

(3) shorter working hours; and

(4) a shorter working life.

Until the Socialist system is in full operation, it will not be possible to ensure either to producers or to consumers all the advantages which will ultimately accrue. It is clear, however, that once our modern capacity for production is released and co-ordinated, and the private profiteer eliminated, producers and consumers alike will benefit substantially.

The object of Socialist policy, as publicly-owned industries became established and prosperous, would be to ensure to the consumer plentiful supplies at the lowest possible prices compatible with the maintenance of proper economic standards and conditions for the workers. It will be found that wages could be raised, and considerably greater leisure provided for the worker. In the first place, it would be possible considerably to reduce working hours by the introduction of a shorter working day, a shorter working week, and provision for annual holidays with pay.

Further, it would become possible to concentrate the labour power of the nation in the most active and vigorous years of life by raising the school-leaving age, and by enabling the older workers to retire on adequate pensions. The Labour Movement will work steadily to achieve these ends.* Its success, however, in these directions will depend in large degree on its proposals for the reorganisation of great industries under public ownership and control, and on the extent to which it can compel the wise re-organisation of those industries and services which, for the time being, remain in private hands.

Its proposals as regards the socialisation of certain industries have already been published, and other industries are now under consideration. The socialisation of Coal and Power, to which the Party has long been committed is being re-investigated in the light of more recent developments.

Other industries, such as Iron and Steel, are also being examined with a view to the formulation of a Socialist policy. The objects of re-organisation, whether under public-ownership or in industries remaining in private hands, pending nationalisation, would be:—

(1) The introduction of efficient methods of production;

(2) organised purchasing of raw materials;

(3) the establishment of effective selling agencies;

(4) the elimination of all unnecessary charges;

(5) reasonable conditions for the producers; and

(6) reasonable prices for the consumers.

A Labour Government would, in association with the Trade Unions concerned and the Co-operative Movement, endeavour to apply these principles to the various industries of the country whilst it is engaged at the same time, according to its priority plan, in nationalising other industries.

* Pensions are not dealt with in detail in this Report as the matter is under examination by the National Joint Council.

INTERNATIONAL ECONOMIC CO-OPERATION

In order to restore trade and raise the standard of life, it will also be necessary to pursue an active policy of International Economic Co-operation.

In modern times, the world has become a single economic unit, and the repercussions of economic disasters in any part of the globe are felt the world over. As the standard of life advances, the people will demand increasingly, products from the uttermost ends of the earth.

The capitalist system is now cosmopolitan; its activities transcend political frontiers. In these circumstances, there can be no return to self-centred economic nationalism. The time is ripe for a great Socialist advance in the economic reorganisation of the world. Just as National Planning is a vital need of to-day for every State, so on a larger scale, International Planning is necessary for the world. The mere summoning of the World Economic Conference, however disappointing its results may prove to be, is a recognition of the fact that no nation can live unto itself alone, but that all nations are affected in varying degrees by problems which are common to the world as a whole, and which can only be solved on a basis of economic co-operation.

The Labour Party in its developing policy for the restoration of world trade, and the inauguration of a new era of prosperity, will work unceasingly for the establishment of effective international economic machinery for the planning and direction of economic affairs and for the closest co-operation between the nations in the economic field. Neither protective tariffs nor free trade under capitalist conditions is an adequate basis for international trade which must, as in the case of home trade, be the subject of planning in the social interest.

The Party is at present engaged on the task of formulating more detailed proposals towards these ends.

SCHEMES OF DEVELOPMENT

Moreover, as an immediate responsibility, whilst devoting itself to more fundamental plans of reconstruction, a Labour Government would use its power to the full to extend publicly organised schemes of national and local development. Its proposals in this direction are dealt with in later sections of this Report.

MAINTENANCE OF THE UNEMPLOYED

Finally, a Labour Government would grapple with the problem of the maintenance of the unemployed and the development of the social services. The question of a comprehensive and detailed scheme for the maintenance of the unemployed is under active consideration by the Labour Party in consultation with the Trades Union Congress General Council. A special Sub-Committee of the Party is devoting itself to the problems of Local Government and the Social Services, and a separate Report is being presented to the 1933 Conference on "Housing and Slums."

These various questions, as has already been indicated, are not set out in any order of priority. All of them would be regarded as urgent, and through its diversified machinery, both legislative and administrative, a Labour Government would put them in hand without delay.

Among the essential early activities of the Labour Government in its drive against Unemployment must be a new orientation of national financial policy. The injury inflicted on British industry by the deflationary policy of the Bank of England in 1920, and again in 1925, when the Gold Standard was restored, has left a permanent mark in the loss of markets abroad. But so long as the country is not tied to a rigid gold system a great stimulus can be given to British industrial activity by sound monetary management.

The Labour Government will, therefore, embark on a programme of public development schemes with the threefold object: (1) of satisfying the requirements of the community in the matter of housing and other needs: (2) of increasing purchasing power and thereby restarting industry and reabsorbing the unemployed; and (3) of stabilising wholesale prices at a suitable level.

This financial programme will be concurrent with and complementary to the activities described in later sections of this Report.

BANKING, FINANCE AND INVESTMENT

At the Leicester Conference (1932), on the Policy Report dealing with *Currency, Banking and Finance*, a Resolution was passed, approving the establishment by a Labour Government of a National Investment Board. As was stated in that Report, this measure of control will not, in itself, bring about Socialism, nor raise the workers' standard of life to a proper level; but it is one of the necessary foundations of Socialist reconstruction. For, so long as the power to control finance—that is, to direct wealth along certain channels and to divert it from others—remains mainly in private hands, every attempt to raise the general standard of life be in danger of frustration. The people's representatives, acting in the interests of the community, must therefore take immediate steps to exercise a complete control over finance.

To understand the proposed methods of control, it is necessary first to envisage the failure of the existing system.

NATIONAL INCOME AND EXPENDITURE

The national income equals the national expenditure on consumption, plus national savings.

These savings ought to be fully employed in investment, with a view to the creation of further wealth, so that the next year's income shall be larger, the level of consumption shall rise, and there shall be still further savings available for further investment. This does not happen with any regularity under private capitalism. Because money is forthcoming for investment, not in response to social needs, but only as the expression of the investor's desire to make private profit as quickly and as largely as possible, there is no correspondence between either the amount or the direction of investment, on the one hand, and the benefit to the community on the other.

When savings are not absorbed by the expenditure on capital goods, including additions to stocks, there is less income to spend on the consumption of goods. Thus, the money forthcoming for the purchase of goods falls short of the money spent on their production, and there is a fall in prices and a decline in employment. When the fall in prices occurs, the employer has to meet losses on his stocks or the goods that are in process of being produced, and a proportion of the national savings is required to meet these losses. Once this process is started it gets worse and worse. The more savings are diverted into the mere financing of losses the less are available for fresh investment; the less money available for investment the less expenditure there is on capital goods, and the greater is the decline in prices and employment. Then further money has to be diverted for the meeting of still further losses, and so on. This has been the course of events in the present "slump."

If the opposite occurs, if money is spent on capital goods faster than actual savings are accruing for investment, there comes the opposite result: demand for goods for immediate consumption is greater than immediate supply; there is a rise in prices, profits and employment. This is a "boom," as opposed to a "slump." But because, by its very nature, it implies the existence and manipulation of unreal money (*i.e.*, money to which there is no correspondence in actual consumable goods) it is bound, sooner or later, to break, and it is then followed by a "slump." This alternation of "boom" and "slump," "slump" and "boom," is the normal and inevitable history of capitalist finance.

The object of the national control of investment is to make investment equal to savings, and to divert investment into socially useful channels; and, further, to ensure that capital and credit are available for carrying through the Government's schemes of development and socialisation, and that such resources are directed in accordance with the economic plan.

To reverse the present "slump" tendency there must be an immediate increase both in consumption and in the expenditure on socially needed capital goods. When there is under-investment on the part of private enterprise, as there is now, the State and Municipal Authorities must fill the gap.

CONTROL OF LONG-TERM CREDIT

As was stated in our Report last year, it is essential to the success of the Labour Party's policy of industrial reconstruction that effective control of new capital issues should be established. It is indeed vital to a planned economy that capital should be directed into those activities, industrial and agricultural, which the general economic plan of the Government demands should be stimulated. It is for this purpose among others that the National Investment Board should be set up.

The Board, which would consist, as the Leicester Conference laid down, of persons chosen on grounds of ability and willingness to carry out the work, would be assisted by a permanent staff of economists, statisticians, etc., and would be essentially an instrument of the Government working under the general directions of the planning committee and of the Minister specially charged with responsibility for the banking and financial system. It would, of course, be in close touch with the Bank of England. While conforming to the general policy laid down, it would adopt the method which it deemed appropriate for the efficient performance of its functions and would have that degree of freedom in making decisions and of exercising its discretion in particular cases which is essential to the operation of any business.

It should constitute, as it were, the general staff of the Government for planning and co-ordinating the mobilisation and allocation of that part of the national wealth which is destined for capital investment.

It should prepare estimates each year of the national income showing what new money is likely to be available for investment. It should consider the schemes of capital expenditure put forward by Government Departments, municipal authorities, public boards and those industries which are to be socialised and to operate under public control. Having made this survey, it should recommend on that basis to the planning committee of the Cabinet a scheme of national investment.

SHORT-TERM CREDIT

At the beginning of the present century, there were about a hundred separate banks in England and Wales receiving deposits from the public and doing ordinary banking business. About half of these, whose deposits amounted to about 25% of the total, had no London office and kept their cash reserves mainly in their own possession or with London agents other than the Bank of England.

The process of Bank amalgamation, however, which was especially rapid during the ten years immediately preceding 1914, resulted in the absorption of practically all the country banks by the "Big Five," and the concentration of their cash reserves in the Bank of England. The process of amalgamation would, undoubtedly, have gone still further, and would have brought about fusions within the "Big Five" themselves if it had not been checked in 1919 by Treasury Order, which forbade any further Bank amalgamations without the permission of the State.

The "Big Five" (Barclays, Lloyds, the Midland, the National Provincial and the Westminster) are thus compelled to maintain their separate existence and to indulge in wasteful competition with one another, especially in the multiplication of unnecessary branches.

Between them these five Joint Stock Banks have something approaching a monopoly of deposit banking in this country, though a number of other banks also receive deposits on a comparatively small scale.

The deposits of British Banks, in April, 1933, were as follows:—

Class of Bank	*Number of Banks in this class*	*Total deposits £ millions*
Big Five	5	1,773
Other Clearing Banks	4	176
Country Banks (Lancs, Yorks, etc.)	5	128
Banks in the West End of London ..	2	5
Irish Banks	9	198
Scottish Banks	8	271
Total ..	33	2,551

To these may be added nine Co-operative Banks with total deposits of £65,000,000. Deposits are also received by certain private banks, such as Hambros and Barings, and by some of the merchant bankers, but these are relatively small in amount.

DEFECTS OF THE PRESENT SITUATION

The defects of the present situation may be summarised as follows:—

(1) There is lack of co-ordination between the Joint Stock Banks themselves. Firms or individuals may have banking accounts with more than one bank, and may thus be enabled to conceal their true financial position. This gives opportunities (which should not exist) to financial adventurers. The banks, moreover, have no common policy regarding advances to industry, and act independently of one another in granting credits.

(2) There is lack of co-ordination between the Joint Stock Banks and the Bank of England. This was emphasised by the Macmillan Committee, who drew attention to its evil effects.*

(3) There is wasteful competition between the banks, particularly as regards the multiplication of branches all over the country. A far larger number of branches exists—and even in some towns a larger number of branches of the same bank—than are necessary to transact the nation's banking business. The number of these branches is still rapidly increasing year by year, without any regard to economic necessity.

The number of branches of the "Big Five" in April, 1933, as compared with April, 1926, is as follows:—

	April, 1933	*April,* 1926
Barclays	2,080	1,837
Lloyds	1,924	1,686
Midland	2,102	1,850
National Provincial ..	1,371	1,132
Westminster	1,061	918

Many of the branches, moreover, are housed on unnecessarily expensive sites.

In the banks' balance sheets, the value of the branch offices is entered much below their market value. This is one of the methods by which the banks have created hidden reserves.

Each of the "Big Five" has a large and highly-paid directorate, many of the members of which, it may be surmised, contribute little to the formulation of the banks' policy. Thus, Barclays, in 1932, had a central Directorate of forty-four members, Lloyds of thirty-three, the Midland of thirty-three, the National Provincial of twenty-four and the Westminster of twenty-six. In addition, Barclays had ninety-eight local directors and the National Provincial thirty-one. The corresponding figures for the other three are not published. Directors' fees amounted to £304,624 for the year 1931 (Barclays, £93,236; Lloyds, £69,619; Midland, £50,411; National Provincial, £47,581; Westminster, £43,777). These figures do not include Managing-Directors' salaries. Of the above-mentioned Banks, other than the "Big Five," a number are controlled by one or other of the "Big Five." There remain, however, nine or ten independent English and Scottish deposit banks outside the "Big Five." These independent Banks include four of the above-mentioned eight Scottish Banks and four of the five principal Lancashire and Yorkshire Banks. The independent Banks play an important part in Scottish industries and in financing the textile industry.

So heavy are the banks' overhead charges that it is understood that a minimum of 2% has to be charged as interest on advances in order to cover these alone. This explains why, although the bank rate has been reduced to such a low figure, the Joint Stock Banks have refused correspondingly to reduce their interest charges on advances and overdrafts, though they have shown no reluctance in reducing the rate of

* See Report of Macmillan Committee (pp. 160-161).

interest which they allow on deposit accounts. The policy of cheap money has been held up, and in large measure rendered ineffective, by this obstacle of the excessive overhead charges of the Joint Stock Banks.

(4) There is a lack of social purpose in the use of the banks' resources. There is no co-ordination between public policy and the granting of credits to industry. Advances are often made to speculators and to assist businesses which have no social utility, and are often withheld from socially valuable and financially sound undertakings. The banks, moreover, have shown a lack of enterprise in making advances. The absence of co-ordination between the Bank of England and the Joint Stock Banks may here again be illustrated from another angle. The Bank of England has recently, by its open market operations, been creating additional credit resources for the Joint Stock Banks, but the latter have been failing to make use of them. Thus, in the first quarter of 1933, as compared with that of 1932, the deposits of the clearing banks rose from £1,646,000,000 to £1,915,000,000, but their advances fell from £889,000,000 to £753,000,000. The Joint Stock Banks have thus been pursuing a passive rather than an active policy. They complain that they are unable to find borrowers, but they have made little active effort to do so. Instead of assisting trade recovery, they have been buying and holding gilt-edged securities.

While trade and industry have been impoverished, the banks almost alone have flourished, having maintained high dividends varying from 14 to 18 per cent.

And so, while money is cheap and abnormally plentiful, trade stagnation and unemployment are allowed to continue.

PROPOSALS FOR REMEDYING THESE DEFECTS

These defects are inherent in a competitive system and in current banking practice. In banking, as in other spheres of our economic and financial life, remedies can only be found through Government action and the application of Socialist principles. The following proposals are put forward in the belief that they are practical and that they apply Socialist principles, in their most appropriate form, to the problem of organising short-term credits.

As indicated in our Policy Report on *Currency, Banking and Finance*, issued in 1932, the Party regards it as essential that there should be much closer control by the Central Bank over the Deposit Banks, and much closer co-ordination between their respective activities.

"It is through the Bank of England," the Report stated, "that control of other financial institutions can most effectively be operated. Such control is already exercised to a considerable extent, both through financial pressure and through tacit agreement; it should be strengthened and regularised. The practice, whereby banks, acceptance houses and other financial institutions look to the Bank of England for assistance when they find themselves in trouble, but are subject to no supervision or control in normal times, must be terminated. Moreover, as the Macmillan Committee very properly recommended in 1931, much more statistical and other information regarding their activities should be furnished to the Bank of England by the Joint Stock Banks, the acceptance houses, British banks doing business mainly abroad, foreign banks with branch offices in this country and financial institutions generally."*

* *Currency, Banking and Finance*, page 9.

With the Bank of England socialised, on the lines already accepted by the Labour Party Conference, such co-ordination and control will become more essential than ever, but if the Joint Stock Banks remain in their present condition, there may be serious difficulty in securing these objects.

BANKING CORPORATION

It is proposed, therefore, that the "Big Five" should be amalgamated into a single Banking Corporation, under public ownership and control. The Government should acquire the shares of the "Big Five" and therewith the right to nominate the directors. A comparatively small directorate should be appointed by the Government, on grounds of ability and willingness to carry out the work under the new conditions, in place of the five large existing directorates. A large saving would thus be effected in Directors' fees, part of which could be devoted to the creation of a really efficient statistical and research department, which does not now exist.

The general managers, managers and other staff of the "Big Five" would continue in employment under the new directorate. If, as is very probable, it is found that, after the amalgamation had come into full effect, a smaller staff was required than at present, the reduction should be brought about, not by the dismissal of existing staff, but by stopping new recruitment and by speeding up the process, which is already taking place in the Joint Stock Banks, of retiring the older officials on pension. The overtime now worked by many bank clerks should also be abolished.

The Government would indicate the general lines of banking policy and would require the Banking Corporation to co-operate with the socialised Bank of England and the National Investment Board in giving effect to it, in conformity with the National Plan of Development.

The shares (which represent only 5% of the banks' resources, the remainder being furnished by their depositors) would be acquired on reasonable and equitable terms. The shareholders would have no further power of control over the banks, and they should be paid off as rapidly as possible, the whole transaction to be completed within a given term of years. The proceeds of the sale of redundant branch premises, which should be carried out as circumstances permitted, and should realise a considerable sum, might be used for such repayment.

Public Authorities, both national and local, should have an option to purchase redundant branch premises, which would often be well adapted for use for public purposes.

The directors of the Banking Corporation, though subject to the obligation to co-operate with the Bank of England, the National Investment Board and other financial institutions in carrying out the financial policy of the Government, should have a large measure of discretion in dealing with particular applications for credit, especially from private individuals and firms. It would be both physically impossible and politically undesirable for any Minister of the Crown to attempt to adjudicate between the claims of private individuals or firms to receive overdrafts, or for Parliament to intervene in such questions of detail, though Parliament would, of course, approve the National Plan of Development and would be entitled to discuss and to criticise the general lines of banking policy, as laid down by the responsible Minister. On the other hand, the basic industries of the country must be assured of adequate credits in accordance with the National Plan of Development.

Directors of the Banking Corporation would be required to carry on the business of deposit banking efficiently and to safeguard the interests of their depositors by keeping a sufficient proportion of their assets in liquid and easily realisable form. The position of the depositors will, in fact, be far stronger under the new system, when their money is deposited with a Statutory Corporation, operating under public auspices, than it is at present, when they are dependent on the security of a single private Joint Stock Bank.

To avoid the danger of loss of liquidity by the Banking Corporation, while furnishing the necessary credits for industry, a new credit institution should be created, as recommended by the Macmillan Committee, but under public ownership and control, to grant intermediate credits to approved industries and to agriculture.

It is hoped that the Co-operative Wholesale Bank, which has a special function to perform in financing co-operative trade, will continue to extend its activities in this field under the new system.

Of the banks and financial houses, other than the "Big Five," which now receive deposits, some, including the principal independent Deposit Banks, should obviously be merged in the Banking Corporation. Others, for special reasons, will continue to operate outside the Corporation. Branches of Foreign and Dominion Banks, and those Merchant Banking Houses which receive deposits, would fall into this category. Deposit banking, outside the Banking Corporation, should, however, only be carried on in this country in future on the grant of a licence from the Government so as to ensure that the bank in question co-operated in carrying out the Government's financial policy.

There remain the Discount Houses and the Acceptance Houses. Control over these will be secured through the socialised Bank of England and through the Banking Corporation. A discount house cannot function, unless it is able in case of need to discount its bills at the Central Bank, or to borrow on them from the Central Bank. An acceptance house, in the same way, cannot function unless its bills are taken by the Bank of England, for, unless they are so taken, they will not be bought by discount companies or by the banks. All these institutions now show their balance sheets to the Bank of England and render detailed returns of all their foreign deposits. Moreover, they are at present dependent for part of their funds on the Joint Stock Banks, and would be similarly dependent, under the new system, on the Banking Corporation.

THE LIMITS OF SHORT-TERM CREDIT

The foregoing proposals would bring our institutions for the granting of short-term credit into line with the requirements of a vigorous Socialist policy of planned development of our national resources. In particular, they would provide for proper co-ordination which is now lacking between the Government, the Central Bank, and the institutions responsible for long-term and short-term credit respectively.

It should, however, be observed that, in the execution of a Socialist financial policy, the rôle of short-term credit from the Banks is more limited than is sometimes supposed. It is one of the faults of capitalist finance to rely on short-term credits when these are an unsound method of providing the necessary financial resources. The German financial crisis of 1931, for example, was much intensified by the misuse of short-term credits from abroad, which were employed in many cases to pay for the installation of fixed capital. Some basic industries and services, such as transport, have no need for short-term credit at all. They pay their way as they go, and depend, for development, on long-term credits and on the reinvestment of their own surpluses. Certain other basic industries could, and should, be made largely independent of bank credits, and it should be one of the objects of the financial reconstruction of these industries, on Socialist lines, to bring this about. Fixed plant should be financed by long-term credits; short-term credit should be confined to the provision of working capital from time to time. Socialised industries, moreover, might find it more convenient to finance their short-term requirements largely by inland bills, based on their own credit, rather than by bank overdrafts.

FINANCIAL MIDDLEMEN

The City of London, and the financial world generally, stands in need of drastic reorganisation for the benefit of productive industry. Too many people and too many private financial institutions are getting a living in the City and elsewhere as financial middlemen, many rendering no real social service and some, by anti-social speculation and otherwise, rendering actual disservice to the community. There are too many soft jobs in the City for influential people; too many multiple directorships, carrying fat fees without real functions; too much patronage, based on family and business connections. As recent investigations in America have shown, the world of capitalist finance is dominated by little rings of "insiders" who "skim off the cream" from the labours of others and enrich themselves through a system of illegitimate privilege.

A Labour Government must seek to introduce greater efficiency and greater simplicity into our financial institutions, to squeeze out unnecessary financial middlemen and parasites, and to mobilise to the full all our financial resources and direct them in accordance with social need and Socialist planning.

The financial policy approved at last year's Conference, together with these present proposals, will succeed in carrying out these objects.

RAISING THE SCHOOL-LEAVING AGE

The Labour Movement has committed itself on many occasions to the raising of the school-leaving age to 15 and the late Labour Government made an unsuccessful attempt to carry out this change.

The Party Conference, moreover, in 1925, passed a resolution in favour of raising the age to 16 as soon as possible.

In view of the heavy increase of unemployment, especially among juveniles, it is more urgently necessary than ever before to check the flow of the younger generation into the overcrowded labour market.

Juvenile unemployment, that is to say the recorded unemployment at the Employment Exchanges of persons between 14 and 18 years of age, increased from 83,000 in March, 1930, for Great Britain and Northern Ireland to 137,000 for Great Britain alone at the beginning of 1933.

In the next few years, owing to the high birth rate immediately after the War, the number of juveniles seeking employment will grow, unless legislative steps are taken to check the increase, from 1,756,000 in the present year to, approximately, 2,199,000 in 1937. In later years the number will gradually diminish.

It is sometimes said that the effect of raising the school age in reducing unemployment is only temporary. This is not true. The effect is permanent, since it permanently reduces the number of annual age-groups seeking employment. It reduces this number by one, if the age is raised to 15, and by two if it is raised to 16. The effect on unemployment will be most marked in the next few years, when the number in the age groups 14–16 will reach their maximum, but it will continue, though in a less marked degree, as these numbers gradually decline in correspondence with the lower birth rates of more recent years.

Raising the school age reduces unemployment under three main heads. It keeps young people at school who would otherwise themselves have become unemployed; it prevents the displacement, which at present takes place upon a large scale, of juveniles between 16 and 18, by juveniles between 14 and 16; and it enables older workers from the age of 18 upwards to retain or to obtain employment, which otherwise would have gone to juveniles. For although, as the Malcolm Committee on "Education and Industry" point out, it must not be assumed that "the withdrawal of a certain number of juveniles from the labour market would mean the substitution of a roughly equal number of unemployed at a higher age, it is hardly open to question that the vacuum thus created would in part, at least, be filled by older workers."

The administrative and educational difficulties in the way of the immediate raising of the school age have been greatly diminished by the large school-building programme carried through between 1929 and 1931 (though this has been cut down as an incident in the Economy Campaign), by the fact that there is to-day no shortage of teachers, compared with present requirements, but a surplus of trained teachers unemployed, and by the decline, which, as the result of the falling birthrate, has already begun, and will continue in future years, in the total school population between 5 and 14 years of age. Between 1933 and 1940, it is estimated by the Government Actuary that this decline will amount to between 800,000 and 900,000.

In view of these facts, we propose that the school-leaving age should be raised to 16 with the least possible delay and within a period to be fixed by Parliament; that it should be raised forthwith to 15, and that maintenance allowances should be paid from the age of fourteen.

Various estimates have been made of the cost of raising the school age, including the cost of maintenance allowances. It appears, however, that on the basis of Sir Charles Trevelyan's Bill of 1930, including maintenance allowances at 5*s*. a week for 60% of the children affected, the total cost of raising the school age to 15 would be about £6,250,000, of which £3,750,000 would be the cost of maintenance allowances. The total cost would rise, with the increase in the number of children affected, to a peak of £7,790,000 in 1936, and would thereafter decline, falling to £6,900,000 in 1940.

These figures represent the total cost out of taxes and rates together. (Under Sir Charles Trevelyan's Bill 40% of the cost of maintenance allowances fell on the rates.) They represent the gross cost without any allowance for savings in respect of diminished unemployment.

On a similar basis, the cost of raising the school age from 14 to 16 over the whole country would be, on taxes and rates together, £14,350,000 in 1936, declining to £12,610,000 in 1940.

If the proportion of children whose parents received maintenance allowances were raised from 60 to 75%, the cost of raising the age from 14 to 15 would be £9,113,000 in 1936, and £8,000,000 in 1940; while the cost of raising the age from 14 to 16 over the whole country would be £16,802,000 in 1936, and £14,627,000 in 1940. If the parents of all children kept at school beyond 14 received maintenance allowances, the cost of raising the age to 15 would be

£11,318,000 in 1936, and £9,833,000 in 1940, while the cost of raising the age to 16 over the whole country would be £20,886,000 in 1936, and £17,986,000 in 1940. There might be a saving of about £540,000 a year on facilities for evening education, which would no longer be required, if the age were raised to 15. If it were raised to 16 the saving might be about £1,000,000 a year.

The savings in respect of unemployment benefit cannot, of course, be calculated with precision; but detailed estimates indicate, if the age is raised to 15 a saving of just over £2,000,000 in 1936, declining to £1,700,000 in 1940. If the age is raised to 16 all over the country, the corresponding figures are £5,500,000 in 1936, declining to £4,700,000 in 1940.

To these figures must be added some further saving in respect of poor relief, particularly in the depressed areas.

The effect of raising the school age on the total of unemployment depends on a number of factors. Some places left vacant will remain unfilled; others will be filled by unoccupied juveniles not registered as unemployed, e.g., by girls working at home; and others by a smaller number of unemployed adults. The following estimates are on the cautious side and may be regarded as a minimum. If the age is raised to 15 it is estimated that in 1936, 65,000 unoccupied juveniles would be drawn into employment, in addition to 95,000 unemployed juveniles between 15 and 18, and a further 95,000 unemployed adults, on the assumption that, on an average, one adult replaced two juveniles. There would then be a reduction of 190,000 in registered unemployment. This figure would fall to 151,000 in 1940.

If the school age were raised to 16 over the whole country, the additional increase in employment for unemployed adults would, on the same basis, be 183,000 in 1936, falling to 151,000 in 1940. There would be no additional increase in employment for unemployed juveniles, for these would all have been absorbed by raising the age to 15. If follows that raising the age to 16 all over the country would lead to a reduction in registered unemployment of 373,000 in 1936, falling to 302,000 in 1940.

The above calculations have only taken into account the cost of raising the school age and its effect on unemployment. In addition, of course, there would be great educational and social advantages to set against the cost.

The foregoing is an emergency policy to be put into effect at once for its influence on Unemployment. It does not, of course, represent the whole Educational Policy of Labour, which will be the subject of further consideration.

PLANNED DEVELOPMENT OF NATIONAL RESOURCES

We are confronted at the present time with the paradoxical situation of idle men side by side with idle industrial plant and idle money lying on deposit with the banks—increasing power to produce wealth alongside of increasing unemployment and a falling standard of life. This vicious circle can only be broken by the adoption of a bold policy of planned development on Socialist lines.

The socialisation of key industries and services (such as Transport, Electrical supply, Coal mining, Banking, etc.) will allow of the adoption of a programme of planned development in each of these industries or services taken separately, but it will be necessary for each of these separate plans to be co-ordinated, particularly as regards finance. This, as explained above, will be one of the chief duties of the new socialised financial institutions, and especially of the National Investment Board. But, in order to perform this duty effectively, the Board will need to be furnished by the Government with a schedule of capital Requirements, to which priority should be given in the raising of new capital issues.

Such a Schedule should include provision for:—

(1) The re-equipment of socialised industries, and also of industries not yet ripe for socialisation, but requiring drastic measures of reorganisation under public control;

(2) A programme of electrification, including the electrification of the socialised railway system (if, after technical enquiry, other more recent forms of traction are proved unsuitable);

(3) The erection of publicly-owned plants in the mining areas for the extraction of oil and other by-products from coal, to be worked in conjunction with the socialised mining industry;

(4) A programme of building, to include housing, schools and hospitals, worked out in accordance with regional plans (see separate Report on "Housing and Slums");

(5) A programme of land drainage and water supply, to be worked out in conjunction with one another, and also based upon regional plans;

(6) A programme of agricultural development, including a vigorous extension of afforestation and forest holdings, based on the public ownership of the land;

(7) A programme of roads, bridges and harbours;

(8) A programme of municipal development of many kinds.

Some of these developments, such as afforestation and roads, should continue to be financed, as at present, out of taxation, and there may be scope for the further extension of this principle.

There is no question that a varied programme on these lines would provide employment in a large number of industries, and in many different parts of the country. It should be emphasised also that such a programme would be directed to the development of publicly-owned and publicly-controlled economic resources. The objective of the Government would be to eliminate all private enterprise as quickly and completely as possible, so that the benefits would accrue to all workers by hand and brain.

It has recently been estimated* that, in present circumstances in this country, every £150 of new loan expenditure gives employment, directly or indirectly, to one man for one year, and hence that a loan expenditure of £3,000,000 will employ 20,000 men, directly or indirectly, for one year, and so save £1,000,000 a year in unemployment benefit (at the rate of £50 a year for each man employed). It is further estimated that the revenue will benefit, from the new expenditure, to the extent of £450,000 a year, so that the net benefit to the two sides of the Budget is nearly £1,500,000, or close on half the new loan expenditure. Similarly, £100,000,000 spent on housing would benefit the Budget by close on £50,000,000.

* By Mr. J. M. Keynes: *Means to Prosperity* (pp. 9–15.)

The Labour Party does not commit itself to the accuracy of these figures, but even if it be thought that they are too optimistic, and if they be scaled down considerably for the sake of caution, the broad conclusion remains unshaken that a bold programme of development will not only diminish unemployment substantially, but will, by increasing public revenue and reducing expenditure on unemployment benefit, relieve Budgetary stringency and make possible further programmes of social development and extensions of social services which, owing to the impoverishment brought about by the collapse of private enterprise, are at present out of reach. It should not be forgotten that new expenditure on development not only creates employment, directly and indirectly, in respect of the particular schemes of work put in hand, but creates further employment in an ever-widening circle, through the payment of wages to those who are now unemployed, and who, through their increased purchasing power are enabled to buy additional goods and services.

Many items in this programme, moreover, are revenue-producing, and would pay for their own cost. The financial resources of the country, especially when reorganised through the social control of finance, are amply sufficient to support a programme of development of this kind. Moreover, in proportion as such a programme is carried through, the national wealth and financial resources will grow.

The effect of such a programme would make itself felt on both sides of the National Budget. As resources of all kinds, in man-power, material and money, which are now idle, or only partially-employed, are drawn into full employment, not only will the cost of unemployment benefit fall but the yield of taxation will rise.

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