system *creates and spends*, as a consumer, at least as much money as the amount it demands as interest on the money it *creates and lends*, the impossible feat has to be undertaken of trying to repay more money than is in existence.

How, then, is the trick performed? The answer is simple. It isn't performed; it is postponed. All that happens is that the world is lent further credits (*i.e.* debts) and pays, for the moment, out of them. To-day's debt cannot be repaid except by incurring a still bigger debt for to-morrow. The process never ends. The debts pile up, that is all; until at last there comes a time when the Debt's sheer size prizes open the eyes of people to the tragic farce of the whole principle of debt on which the system works, or else the debts themselves become unbearable. There is some evidence that the time has come when both these things have happened simultaneously.

Thus the Internal Debt of the United States in 1932 stood approximately at 218 billion dollars. In the case of England, however, the noteworthy fact is not the appalling amount of her Internal Debt but the fact that it grows bigger every day. And this in spite of the balancing of budgets, high taxation, and obedience to all the rules. (Perhaps *because* of this obedience?) According to Mr J. Taylor Peddie, speaking in June 1933: "We have as a people contributed through Sinking Funds and Budget Surpluses since 1919 a sum of £931,000,000 towards the redemption of the Internal Debt, but this Debt is greater to-day than it has been at any time since the end of the War." As regards External Debts, the wails which went up at the World Conference from creditor and debtor nations alike are still fresh in our ears.

That abortive meeting of sixty-six patients is worth

one final glance. The Conference was called, though not in so many words, to examine how the nations could pay their debts. If it had been called to examine the things which had caused those debts, or, better still, to examine the things that had caused the things that had caused them, the Conference would have been magnificently worth while. As it was, the delegates took only one important decision. This was when their President, Mr Ramsay MacDonald, whose emphasis of tone we have italicised in print, spoke these historic words: "I think I express the wishes of the great body of the delegates when I say that we have *not* come here to discuss *mere economic theories and generalities* . . ."; and none disagreed. Have it your own way, Mr MacDonald, have it your own way; a conference only means a few more thousands of the taxpayers' money. But let us at least point out one "mere economic theory and generality." The world cannot return 105 things when only 100 of them are in existence to return; and the world as a whole can never pay back its debt to the banking system because the amount of money requisite for the total repayment of total loans plus total interest is never, and never can be, created by the banking system *without the creation of fresh debt*. In banning this "mere economic theory" and a dozen equally basic "generalities" as too trivial to discuss, you sounded the failure of the Conference ten minutes after it opened—its failure, that is, from the World's, as distinguished from Finance's, view.

Never under your presiding—unless you change your note—will either 66 or 6 or 666 nations be able to put Humpty Dumpty on the wall again—except in such a position as to ensure another and even more disastrous fall in the not far-distant future. There is nothing whatever wrong with Humpty Dumpty in himself; he enjoys the constitution of an ox. It is the wall he has to sit on that is rotten. But you won't even look at it.

If the present economic system is breaking down in *practice*, surely the first thing to be discussed by people who did not mistake a museum for an asylum would be the *theories* on which that practice was based. Had this been done, the museum inmates would have found that the present financial system might be best described in the words of Mr W. Dyson as "a system for the creation of unpayable debts."

Before passing from the important contemplation of all money as debt, there is one very natural question that we must try to answer. When and where did it all start? Have we always been in debt? Did, in short, the banking system start its career as a lender, as it is to-day, or was the first item in the first bank account a true deposit for safe-keeping of a customer's money tokens? A natural question, this, but perhaps not much more to the point at a time when the world is in acute anger and distress than the vain problem of which came first, the hen or the egg? There is no exact answer, for so far as the writer is aware the precise evidence is lacking. None the less two things may be noted which show the way the wind has been blowing for at least some centuries. The first is that the Bank of England came into being, not because William III had a sum of money and wanted a bank to deposit it in, but because he wanted to *borrow* money; and the second thing to be noted is the fact that the Bank's fiduciary issue of money represented then, as now, not the Bank's debts to the Government, but the Government's debts to the Bank. Thus England's financial system has been based on the principle of debt for

more than two hundred years, beyond which period it would seem, for all practical purposes to-day, somewhat academic to delve.

The Ultimate Responsibility

The power of the banking system, through its functions of creating, expanding and contracting, regulating and destroying money, is incalculable, unparalleled, and sinister. Owning the gold on which money rests it owns the money; and from its ownership of that, control of monetary policy and therefore of national policy follows. Mr McKenna again enlightens us, still speaking as Chairman of the Midland Bank:

> "To define monetary policy in a few words," he says, "I should say it is the policy which concerns itself with regulating the quantity of money. As I shall show later, it is controlled by the Bank of England."

Is this not a monstrous usurpation of sovereign powers? As a man owns his corpuscles of blood, should not a community own the money tickets which are its economic blood? Should we not soon send about his business a doctor who treated us only on condition that we solemnly regarded our blood as a permanent "debt" to him? And should we not view with suspicion a firm of printers, say, who, simply because it printed railway tickets, managed to establish a subtle ascendancy over the whole railway system and made the board of directors no less than the engine-drivers and porters, and of course the passengers, beholden to it?

We may fulminate and roar as much as we please, and elaborate indignant metaphors to our hearts' content—and a measure of vituperative explosion is no bad thing, lowering as it does the pressure of pent-up exasperation—but it will all be empty and futile as a windbag unless we realise that the ultimate blame rests not upon the banking system nor upon our stars, but upon ourselves. Let us be clear about this. The banks function as they do by our consent. We have chartered them. And ever so often the world renews the charters of its banks. If we dislike the way the banks behave we should refuse to renew their charters. There is our constitutional remedy, lying to our hand. Why don't we use it? The answer is supplied in the words of the disillusioned politician who said to the young enthusiast: "My boy, don't you know that the depths of public apathy and ignorance in this country have as yet been hardly touched?" Still, that was said some while ago. . . .

Introducing the Bank Charter Bill in 1844, whereby the nation finally enthroned the Bank of England, Sir Robert Peel delivered himself of these reflections. "There is," he said, "no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and the lowest, the payment of the National Debt, the provision for the national expenditure, the command which the coin of the smallest denomination has over the necessaries of life, are all affected by the decision to which we may come." It would be interesting if Sir Robert could tell us to-day what he thought of the results of that fateful decision. Since he cannot, let us at least be clear that such decisions—and their opposites—are made by us. The banking system is

impregnable and its monopoly secure only so long as the world's parliaments, governments, and treasuries allow. These at least we have power over: we can change and unseat them if they offend or disobey. They are our mouthpieces, and if they are silent or ineffective, it is because we ourselves are silent and ineffective. We have none but ourselves to blame.

CHAPTER IX

THE CHRONIC SHORTAGE OF MONEY

In the last chapter we saw something of the relation of money to Gold, but nothing of what is far more important—its relation to Goods. This relation we shall discuss now, and our hero and his henchman, the Consumer and Industry, will return to the scene.

Let us forget for a moment, if we can, the antics of the banking system, the extraordinary behaviour of our bridge officials, and take our bearings.

If we have carried the reader with us, we are agreed that of the three organs of the economic body—Consumption, Production, Distribution—we have no choice but to suspect the last of poisoning the whole body, since we pronounced the other two organs healthy. But that was only negative proof. Now we are ready for the second operation, by which we shall be able actually to locate and identify the poison, to see it at work, and so establish positive proof of its presence in the organ of Distribution.

We saw that Distribution depended upon Finance and that Finance meant Money. So our inquiry takes this form: Is the money distributed to a community enough for that community to buy all the goods it wants up to the total quantity which Industry produces? The clearest answer to this question is to be seen in a survey of the physical world around us.

The acknowledged spectacle of poverty amid plenty means and can mean nothing except that there exist, side by side, a deficiency of purchasing power and a sufficiency of goods. The productive system has to work undertime, because if it worked at its full capacity it could not help but produce a surplus of goods, which, though needed or desired, could not be bought simply because people did not possess the requisite money. It does not need a New Economist to point this out or a knowledge of higher mathematics to prove it. Qualified people who have never heard of the New Economics and know nothing about higher mathematics are pointing it out and proving it every day. Thus—and the examples could be multiplied indefinitely:

1. In *The Search for Confidence in 1932*, the second series of bulletins issued under the chairmanship of Mr A. H. Abbati, the total buying deficiency of the world is estimated at between £4,000,000,000 and £5,000,000,000.

2. In the Richard Cobden Lecture for 1933 Dr E. Heldring, the Dutch shipowner, estimates that some 100,000,000 people in the world to-day would have no purchasing power at all if other consumers did not give them some of theirs in the form of either governmental or charitable relief.

3. According to the National Bureau of Economic Research (*Income of the U.S.*, No. 2, pp. 242–248), in 1918 American Industry paid out $45,548,000,000 in the form of wages, salaries, dividends, bonuses, pensions, compensation for injuries, etc. That is to say, this was the amount available for the purchase of consumers' goods that year. But that year American Industry produced consumers' goods to the value of $60,366,000,000. (Further, the

$45\frac{1}{2}$ billion of income is not all used as purchasing power; savings and investments must be deducted; and, on the other hand, profits included in the 60 billion of price are not used to an appreciable extent as purchasing power. If profits are small they are negligible in computations of this size, and if they are large they go, not into the purchase of consumers' goods, but into investment or expansion of business.)

About \$40 billion was therefore distributed and used as purchasing power to claim an output of goods priced about \$60 billion. And this proportion holds also for the decade 1909 to 1918, inclusive, during which time \$266 billion was distributed as wages, salaries, and dividends—and Industry produced \$390 billion worth of consumers' goods for those wages and salaries and dividends to buy!

(The missing two-thirds was, as usual, made up from sources outside the American industrial process, namely, from the "credit"—i.e. *debt*—extensions of the banks and from foreign trade.)

4. Mr Wallace Clark, whom we have quoted before, finds that even in times of prosperity industries with which he was connected ran their plants only 40 to 60 per cent. of the time, and adds: "During these 'good times' of 1922–1929, lack of orders or sales was usually accountable for 75 to 80 per cent. of such large margins of equipmental unemployment."

The Flow of Money

Money, like blood, flows. The difficulty in the case of most substances which flow in circles is to know where they start; but with money this difficulty does not arise, for we know now that it starts in a bank. The

dividend we received yesterday, to-morrow's salary, the financial credit we keep meaning to send by cheque to the tailor, the half-crown Smith tried to borrow last week, the notes in our wallet—all represent money originally born in a bank—of a banker's nod.

Once born, money flows as follows:

1. From the Bank to Production.
2. From Production to Consumption.
3. From Consumption back to Production.
4. From Production back to the Bank.

Following the flow in more detail:

1. Money flows from the Bank to Production as a *loan*.

2. It then flows through the various stages of Production as *costs*. When we speak of an article's "cost of production" we mean simply the total volume of money which has flowed through Production in respect of that article.

3. That portion of the flow which succeeds in reaching Consumption reaches it as *purchasing power*. Consumption welcomes its arrival and regards it as a stream of tickets wherewith to buy "consumable" or "ultimate" goods. Then, at the moment of buying, an interesting thing takes place—the act of purchase starts the money on its homeward course. The turning-point is the retail shop counter. The retail shop counter is the limit of money's outward flow, and as it passes over that counter it flows back into Production. It flows back into Production as *payments of prices*.

4. On its last stage, that from Production to the Bank, the money flows as *repayments of loans*; and on arrival at the Bank it is destroyed as easily and quietly as it was created.

The saying that money doesn't last long thus takes on a new meaning when we realise that every time we spend it we are sending the amiable creature to its death.

The Circulation Myth

This is perhaps the best place in which to try to dispel the illusion that the circulation of money increases the purchasing power of consumers, that one piece of money can do the work of several, and that £1000 can distribute, say, £3000 worth of goods. This, as Major Douglas has said, is a "complete and major fallacy." But we must deal with it because it is so commonly believed.

The familiar picture is that of a beneficent £1 going the rounds of the town from butcher to baker, and from baker to candlestick-maker, and enabling these worthies among them to buy £3 worth of goods, the £1 in question being able in some mysterious way to avoid taking its place in the flow of money back to Production as a piece of the repayment of costs. The picture is a delightful one, and we should like nothing better than to meet this accommodating £1 which is supposed to spend its time jumping back and forth over the retail counter. Given over entirely to good works and theoretically in perpetual motion, this surprising piece of money seems to be a sort of financial widow's cruse—it never fails. Unfortunately, however, it does not exist.

Perhaps the most effective way of appreciating the completeness of the fallacy is to act as though it were true, and see what happens to you. Suppose, then, you are Boss—boss of everything, including Production and the Money system. You produce a volume of goods, and you offer them for sale at a little over

£3,000,000 because the goods have cost you £3,000,000 to make (for you are a Very Just Boss, content with a reasonable profit). Now, since you believe that the butcher, the baker, and the candlestick-maker between them bought £3 worth of goods with £1, you will conclude that £1,000,000 will be enough for the population to have in order to buy £3,000,000 worth of goods, and you will accordingly supply your population with that million pounds. Now, you need not be Boss to perceive that as a result of your actions, instead of recovering your costs of £3,000,000 (like a Wise Boss), you will be £2,000,000 out of pocket. And no amount of reasoning, no amount of mathematics, no amount of expert economics, no amount of imagination, and no amount of "circulation" will put two million non-existent pounds into your pocket. In short, £1,000,000 will not and cannot repay the £3,000,000 which Production *must* be repaid if it is to recover its costs and continue producing.

What happens at the butcher's, of course, is that the butcher, like everyone else, *treats as purchasing power what is in actual fact mainly repaying power*, and the actuality of this fact will be reflected in the butcher's accounts. The butcher, like everyone else, is able to proceed along these convenient lines because of the convenient and very proper fact that one pound note is the same as any other; indeed, the interchangeability of our money tokens makes it happily impossible for us to proceed, in practice, upon any other lines. But the £1 we give the butcher is not in the last analysis regarded by him as purchasing power to be spent at the baker's. Unless he wishes to head straight for bankruptcy, he regards the bulk of that as a means of repaying the wholesaler who supplied his meat, and only what is left over and above that does he regard as purchasing power "with no strings on it," which he can use at the baker's to buy more goods from Production. Thus, if the butcher runs his business at a general turnover profit of about five per cent., then about 19s. of the £1 we have given him will be treated by him as a repayment of butcher's costs and about a shilling as purchasing power.

What people mean when they talk loosely about the "velocity of money's circulation increasing the distribution of goods and therefore the purchasing power of the public," is, quite simply, that the more quickly goods are claimed from Production, the better. We agree heartily—a brisk rate of claiming goods from Production is, as the authors of *1066 and All That* would say, "a *good* thing." But it does not add a penny to the purchasing power of the public or enable a single additional article to be bought from Production and consumed. How CAN it?

The Explanation

After this digression let us return to the flow of money. Of the four kinds of flow we have noted that the one which concerns us here is the flow from Production to Consumption, where money flows as purchasing power. Why is the volume of this purchasing power less than the volume of the prices it is called upon to pay?

Here is a compact answer given by Major Douglas in *Credit Power and Democracy*:

> "A factory or other productive organisation has, besides its economic function as a producer of goods, a purely financial aspect. It may be regarded on the one hand as a device for the distribution of purchasing power through the media of wages, salaries,

> and dividends, and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups:
>
> Group A. All payments made to individuals. (Wages, salaries, and dividends.)
>
> Group B. All payments made to other organisations. (Raw materials, bank charges and other external charges.)
>
> "Now the flow of purchasing power to individuals is represented by A, but since all payments go into price, the rate of flow of price cannot be less than A + B. Since A will not purchase A + B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power not comprised in the descriptions grouped under A."

This passage contains a succinct statement of what is known as the A + B Theorem, and it would be unfair to quote the above passage without adding that its author, Major Douglas, has elucidated its packed contents in divers forms and on divers occasions since. The reader is perhaps especially referred to his reply to the criticisms levelled at the Theorem by Professor D. B. Copland of the University of Melbourne, and by Professor L. Robbins of the University of London (the reply is entitled *The New and The Old Economics*, The Scots Free Press, 1s.).

The Theorem may be paraphrased as follows:

Over any given period or at any given moment the volume of purchasing power in the hands of a community is insufficient to buy what that community has produced during that period, BECAUSE the rate of flow of prices is always greater than the rate of flow of purchasing power.

Even when expressed in such comparatively lay language, it is clear that the Theorem's ultimate proof or disproof is a matter for mathematics rather than for argument or philosophy. And if we suspect that the use of the word "rate" involves (in the proof of the Theorem) a use not only of mathematics but of the higher mathematics, then we suspect rightly: it does. For this reason, since the number of people conversant with the higher mathematics is small, we do not propose here to *prove* the Theorem in this way. At the same time the writer will be glad to put any reader conversant with the higher mathematics in touch with a professor of mathematics who will not only prove the Theorem (that has already been done) but who also guarantees, as it were, to make the proof plain. Or, again, he can find mathematical proof in Major Douglas's books. *For ourselves, the economic state of the world to-day—that of Poverty in Plenty—is the Theorem's best proof, for that state is observable by all and cannot be argued away.*

Without in any way attempting to "prove" the Theorem, however, the following points, put categorically and as briefly as possible, may help us to grasp it:

1. The word *rate* is the most important word in the Theorem; the conception of money and of the economic process in general as a *flow* is essential; and consideration of the "time factor" is paramount.

2. What is true of one "factory or other productive organisation" is true of all; that is, it is true of Production as a whole. What is true of one moment or one period is true of any moment and any period; that is, it is true of every moment and of every period; that is, always.

What is true of a single thing is true of the sum of

any number of identical things, whether these things be factories or moments of time.

3. Therefore Consumption always can buy only a fraction of Production, the fraction being $\frac{A}{A+B}$.

4. It is true that the B of one factory becomes *at some time or other* part of the A of other factories. *But not necessarily at the right time.* It becomes part of the A of other factories *before* the goods in respect of which it was issued appear on the market. (A simple example is the new industry for turning coal into petrol. The erection of the necessary plant is one of Imperial Chemicals' B payments, and the money to pay for it is being distributed to the employees of the firm supplying and erecting the plant, *now*; that is, months before any petrol resulting from the plant comes into the market.)

5. Therefore inflation takes place, inflation being an increase in prices through the appearance of money unaccompanied by "ultimate" or "consumable" goods.

6. "*At the time* that finished commodities are ready for market their prices include certain items as costs of production, the equivalent of which in purchasing power is not of necessity *at that time* in the possession of consumers" (A. R. Orage).

7. The omission of Profits from the Theorem does not invalidate it. The inclusion of this item strengthens it. A is then called upon to buy $A+B+x$, where Profits are x.

8. Eschew phrases like "But surely at the *beginning* of the process. . . ." There is no beginning. The economic process is a continuous, expanding, circular flow.

Another Way of Looking at It

If we cannot grasp the A + B Theorem at first glance we can console ourselves with the fact that many people have been in the same boat before, and also with the fact that there are other ways—besides a simple observation of the spectacle around us of poverty in plenty—of demonstrating the chronic shortage of purchasing power. Here is one demonstration for which we are indebted to C. Marshall Hattersley, who writes in *This Age of Plenty* as follows:

> "Let us by way of illustration assume an isolated and self-contained community in which consumers spend on the average £10,000 weekly on the goods they require and also invest in industry an average weekly amount of, say, £500. To enable them to do this they must receive from the producing system an average weekly income of at least £10,500. There is thus, *ex hypothesi*, a constant flow of at least £10,500 per week from the producing to the consuming system, and consequently a weekly addition of at least £10,500 to the amount sooner or later to be recovered from the consuming public in prices. On the other hand, although each week £10,500 is recovered by the producing system through the two channels of price and investment, the average amount recovered each week THROUGH PRICES is only £10,000."

The above passage stands by itself and needs neither qualification nor explanation. In connection with investment generally, however, it may be stressed that while it is quite true that those who invest this sum of £500 will receive as dividends therefrom (at 5 per cent.) the sum of £25 yearly, and that after twenty years they will have received back the whole of the

£500, yet they receive this purchasing power back, not only with a delay of twenty years, but also *only after having initiated through their investments about £500 worth of Production*, and so in the subsequent cycles widening the gap between purchasing power and prices still further.

The Cap Fits

If these theories are correct and our diagnosis true, we should expect certain theoretical results to follow; and these are precisely what we find operant in the world to-day, translated moreover, with all the force of reality, into practical results. The general background of the picture is, of course, the sombre grey of poverty in plenty: that at least fits our diagnosis. But we can pick out the features of the foreground and point to each, saying, "*That* is what the Theorem said would happen, and must happen." We choose a few of the more prominent features to show how, too, too well the cap fits.

Advertising and Salesmanship

If the "money-lag" is cumulative, then we should expect the effort to force an ever-increasing volume of prices through an ever-diminishing bottle-neck of purchasing power also to be cumulative. And this is the explanation of the bawling, exaggerating, and even lying advertising and salesmanship of to-day. The true function of these services is, first, to inform, and then to persuade. But it is no use to "inform" a camel of the presence of a needle's eye and "persuade" him to go through it; you have to use force. And if the camel is gradually growing and the eye gradually contracting, you have to be quick about it, and get him through by wile or by guile, by hook or by crook.

Thus in 1919 there were started in the U.S.A. alone no fewer than 600 schools of salesmanship. Again, as long ago as 1912 the merchants and warehousemen of Manchester and Liverpool had a greater capital employed to sell cotton goods than that required by the whole of Lancashire's cotton industry to make them. And by 1933 these services had reached such proportions, and it had become so much harder and more expensive to sell a thing than to make it, that the British Prime Minister felt it not inconsistent with the dignity of his office to give his official blessing to the Advertisers' Convention, and applaud its desperate but (in the circumstances) necessary ballyhoo.

The Dilemma of Saving

The Theorem implies that the practice of saving and investing only aggravates the situation. Thus the billion and more pounds deposited or invested in such institutions as Insurance Companies, Building Societies, and the National Savings Association, means that a proportionate value of goods are unable to find buyers in the home market. Not only that, but this billion and more has to be reinvested in fresh capital production designed to produce *yet more goods.*

Similarly the £300 million mark reached by the Post Office Savings Bank in 1933, tribute though it was to its depositors' thrift, was, and still is, a brake on Industry and a virtual cancellation of this amount of Effective Demand. Under the present economic system the man who saves as much of his purchasing power as he can is an enemy of society, while the man who spends the whole of it and saves nothing is a fool; but the fool at least contributes his drop to society's economic blood. Perhaps this dilemma is seen most clearly in our Press: one column, voicing financial

policy, solemnly impresses upon us the need for economy and the desirability of saving every penny, while the next column, voicing industrial policy, exhorts and implores us to spend every penny and so set the wheels of trade turning. Is it any wonder that the wretched reader decides the economics are not for him—or her—and turns quickly to the sports and gossip columns?

The truth is that most people are so poor that they *dare* not spend. They needs must save, and the irony of it is, as Major-General Seeley (as he then was) pointed out in connection with Savings Certificates, that the savings came "mostly from the poorer classes"; in other words, from those whose need for more of the amenities of life was the most acute. Driven by their Fear for To-morrow's Dinner, they contemplate the possibility of increased comforts in the future rather than risk experiencing them now. How long those comforts are likely to be in coming may be judged from the fact that the greatest luxury of the poor is a decent funeral.

Inflation

Suppose that 100 articles and 100 pounds exist side by side. Then the price of each article, other things being equal, will be one pound. Suppose now that five more pounds, but no more articles, make their appearance. Then, until five more articles do make their appearance, the effect of the extra five pounds will be to raise the price of the 100 articles already on the market, and their price will no longer be $£1\left(\frac{100}{100}\right)$ but something just over £1; that is, $£\frac{105}{100}$. Just such an increase has been taking place in the world for some centuries. When capital costs appear as premature purchasing power without the simultaneous appearance of a corresponding quantity of goods, it raises the prices of all the goods which *are* on the market. In other words, it causes inflation—an inflation which has been going on steadily and stealthily, everywhere and all the time. This is the reason why, although Falstaff could get two gallons of sack for $\frac{3}{8}$d., a glass of beer to-day carries a price twelve times that amount; this is why, although two centuries ago the reasonable salary for the Matron of a London Hospital was £16 and for its resident medical officer £20, a century later these figures were £60 and £105 respectively; this is why between 1900 and 1911 retail prices in Great Britain rose by 9·3 per cent.; why they have risen since then, and would have risen, war or no war; and why they will, over any appreciable period, continue to rise.

B's Relative Increase

(Relative, that is to say, of course, to A.) The Theorem implies that consumers are able to buy only an ever-decreasing fraction of Total Production. Now, if there is one fact to-day with which Industry is better acquainted than another and upon which there is universal agreement, confirmed by Industry's account books, it is that man-labour costs (which go into A) are a diminishing quantity and that machine costs (which go into B) are an increasing quantity; and every installation of new machinery, every technological improvement in old machinery, every increase in output per man, and every dismissal of a workman because a machine is going to do his work for him, decreases the quantity of purchasing power issued and

increases the proportion of overhead charges and capital cost. Production is expanded, while purchasing power is contracted.

Palliatives and Props

How, then, has the system survived for so long, and why doesn't it break down more quickly?

Briefly, the system is kept going by trying to sell abroad what cannot be sold at home; and by such expediencies as bankruptcies, liquidations, selling below cost, writing down of capital, and the actual destruction of goods; and also, of course, by the issue of fresh streams of bank loans for fresh production. This last expedient admittedly releases fresh streams of purchasing power, but it does so only by creating the means of releasing also fresh streams of goods and so intensifying the next "trade depression." These loans are like a drug: the more we take the more we have to take, until in a short time we pass completely into their power.

Export, fresh Loans for fresh Production, and Destruction or Sabotage—these three are the most important of the system's props, and we shall devote the next chapter to them. But the work of the smaller fry in saving the system from complete collapse is by no means beneath notice. In the case of bankruptcies, for instance, according to the Board of Trade returns for the past quarter of a century (1908–1933), the number of these, together with Deeds of Arrangement, etc., was 118,693, and the liabilities in these cases showed an excess over assets of some £160,581,000; that is, goods to this value were sold below cost, many of them no doubt for next to nothing; and by the process of bankruptcy the balance of the cost price over the selling price was *cancelled*.

Thus does an ailing system seek to eke out its days, and proceed on the bland assumption that "things will pan out fairly squarely in the end." But there is no end. And there is no beginning either. The economic system is in ceaseless flow and cannot catch up even with its best intentions; nor ever will, until its outflow of purchasing power catches up with, and thereafter keeps level with, its inflow of prices—or, as the Theorem puts it, until "a proportion of Industry's product at least equivalent to B is distributed by a form of purchasing power not comprised in the descriptions under A." The New Economics shows how this can be done.

CHAPTER X

WAR, TYRANNY, AND WASTE

In the last chapter we said that the System saves itself from breakdown in three main ways:

1. By the development of Export Trade abroad.
2. By the creation of further Bank Loans at home.
3. By the practice of Sabotage.

The fact that the whole world is practising all three expedients with greater and greater desperation is itself a wholesale confirmation and a sweeping vindication of the System's analysis by the New Economics, which states that the world is suffering from nothing but a chronic shortage of purchasing power. For it is not difficult to perceive the direct connection between each of these expedients and the shortage of purchasing power, when we realise that (1) export trade is an effort to find consumers with purchasing power, (2) bank loans an effort to catch up with the lag in purchasing power, and (3) sabotage, or deliberate waste or restriction, an effort to desist from producing goods for which there is insufficient purchasing power—all three efforts being unconscious, and their true meaning veiled from those who exert them.

But desperate expedients bring desperate results. Export trade, practised as it has to be practised under the System, is the highway to war; bank loans are a noose (as we saw) in which individuals, industries, nations, and finally the world itself, are caught and delivered into the tyrannic power of a private, international, irresponsible banking system; while sabotage automatically fights every effort of science to improve the Machine, and impairs its efficiency.

The world has been content to invest the present system with all the mystery and inexorableness of a god, and to bow down before it with closed eyes. If we open our eyes and look this god over, we find an unholy trinity, whose three persons are War, Tyranny, and Waste. No civilisation, no matter how kindly its nations may feel towards one another, and no matter how confident, industrious, and orderly the citizens of those nations may be, can long survive its worship of a devil in mistake for a god. Nor, as long as it tolerates such a trinity, can mankind say with Shakespeare's Beatrice that at his birth a star danced. Unless it was a devil dance.

Exports and War

Ask those visitors from Mars whom we met what they believe to be the right purpose of export trade, and they will surely answer: "The purpose of export trade is to get from other nations goods which you want but cannot grow or make yourself, and to export, in payment for them, goods which, in turn, those nations want but cannot grow or make themselves." We agree with the visitors: equal exchange of goods and services is the only kind of international trade that is healthy and free alike from indebtedness and from the consequences of a faulty cog in the distributive machinery. But under the present system export trade is compelled to be something very different from this. It is compelled to become the chief safety-valve and outlet for goods unpurchasable at home. There

is no exaggeration, therefore, in such typical remarks as: "Unless we can sell in foreign markets we are on the straight road to national suicide" (Mr Kellaway, when in charge of the Overseas Trade Department); and "The vital problem is the problem of markets, the restoration of old markets, but, still more, the development of new markets" (Sir Philip Cunliffe-Lister, speaking as President of the Board of Trade). No doubt both these gentlemen would point out that they were referring to the absolute necessity of export trade, not as an outlet for goods unpurchasable at home, but because Great Britain was not self-supporting. Such a remark, however, would be irrelevant, for the cog we have examined is faulty in every country, including those which could be self-supporting. America, for instance, could be 98 per cent. self-supporting (and under challenge doubtless 100 per cent.), but, unless she changes her economic system, export trade will remain for her a paramount necessity.

(The point about Britain's self-sufficiency is that she doesn't know what she could do in this and in many other directions, because the System, which has delivered our farms to the bankers, won't allow her to try. The hasty effort made during the War, with our best manhood away, is some indication of what could be done, and in the opinion of at least two well-known agricultural experts—Sir Daniel Hall and Sir Charles Fielding—Britain *could* support herself.)

Beside this life and death necessity for foreign markets, the home market is commonly regarded as a bagatelle—when it is regarded at all. Thus in the passage quoted we may note that Sir Philip Cunliffe-Lister took it for granted that the word "markets" meant "foreign markets." Those who, like Sir Philip, are put to work at the unworkable, are forced to the view that the home consumer must look after himself, and that, in any event, he is a decent, uncomplaining fellow, used to sacrifice, and thankful for crumbs.

The essence of our present export system can be seen in the picture of a Leicester bootmaker, say, whose children are walking about on their "uppers," producing beautiful boots for South Sea Islanders, whose native haunts are in process of being "developed" by a foreign loan. This is not particularly grotesque; Mr Baldwin pointed out in his famous "broccoli" speech that one of the most hopeful signs in our export trade was the sale of bicycles to West Africans.

The first two things, then, to notice about our present brand of export trade are: first, that we are at present absolutely dependent upon it; and second, that it is not the brand which is primarily concerned with the "swopping" of goods between free nations for their mutual benefit.

The third thing to notice is that the necessity for foreign trade increases as the Machine approaches perfection. Every technological improvement which throws men out of work reduces their purchasing power, and so decreases the Effective Demand for goods in the home market. Consequently, if the manufacturer is to sell his total output, the Effective Demand of the foreign market has to be increased correspondingly.

But—and this is the fourth point—the export market is not increasing. It is diminishing. Countries, at one time paradises for exporters, have gradually set up factories of their own. (The comparative speed of the progress is worth marking. Thus Germany began to make industrial headway only at the close

of the Franco-Prussian War, but by 1914 she was probably the most intensely industrialised state in the world. Japan, starting twenty years later, became mechanised within a few decades; and this, too, on an island lacking both coal and iron and 6000 miles from its nearest industrial neighbour. Russia is arming herself with machines in five-year strides, and, in short, as Mr Stuart Chase points out in *Men and Machines*, we live in an age of acceleration, for while "it took gunpowder a thousand years or more to get into Europe from China, a Watt engine reached America by 1790.")

And, of course, every increase in the ability of industrialised communities to produce goods helps to congest the export market still further.

This almost frightening and apparently irresistible acceleration inherent in the whole industrial process, as regards both its spread and its productivity, is sufficient answer to the complacent argument that there are still plenty of places on the globe without a factory chimney or a chain store. It is a question only of time.

The fifth and last point to notice is that all the nations are compelled by their economic systems, all of which are similar, to practise the same pernicious type of export trade. All the dogs are after the same bone. And the bone represents, not excessive greed, but reasonable existence.

It does not take more than the briefest consideration of these five points to arrive at the fateful conclusion that the right to sell goods in the last remaining corner of the last remaining export market must be decided, in the last resort, by war; unless some of the nations, all of whom are converging with gradually increasing momentum upon the diminishing object, the bone, are content to give up the chase and pay the price, the latter being, at best, a lower standard of living and a more general economic stringency, and at worst, starvation and virtually complete economic strangulation. The nations have the choice of these two evils. There is no third alternative: no New Atlantis will emerge obligingly from the sea to provide us with a limitless export market on this planet; and we cannot yet export to Mars.

As Dr Soddy notes, the necessity to sell goods in other countries is a strange motive for war. He says:

> "No doubt behind the alleged motives of national pride and honour, racial and religious antipathies, external dangers, and the sedulous fostering in consequence of human pugnacity and quarrelsomeness, which produce war, economic causes of a much more humble and sordid nature were always at work. But to-day these are the opposite of what they once were. Our ancestors, who since before the dawn of history have periodically ravaged these shores, fought for what they could take back home, whereas we fight for the outlet of our wares to sell them abroad, for markets and a place in the sun, and to get weaker nations into our debt. If you start from the dictum that it is no use being able to produce wealth if you won't coin money enough to sell it at home, foreign markets are economic necessities, but it is the opposite sort of necessity from that which used to cause war."

That Need for a Change of Heart?

For these reasons the world's best intentions come to no harvest. The Will to Peace is there: since the armistice some three hundred arbitration treaties have

been drawn up by the nations; the Churches plead for swords to be turned into ploughshares; ancient universities vote "Down with War!"; disarmament conferences are in almost continual session; the League of Nations continues manfully to breast a sea of rebuffs; 152,000 Rotarians the world over pledge themselves to secure peace; so, too, does Labour; while, God knows, the man in the street does not want war. It is painful to have to disparage the good intentions of these bodies and of pacifists in general, but it is clear that few of them, if any, know what they are talking about so eloquently. They are talking about peace, yet they do not know why peace is impossible. They are talking about war, yet they do not know why war is inevitable. To know these things requires some hard, exact thinking, and it is easier to roll out high-sounding platitudes and rounded phrases. Nevertheless, until the executives, dignitaries, and camaraderies of the world stoop to examine its realities before they ascend on the wings of their lofty idealism, they are wasting their time and had better save their breath to cool their porridge. And yet what fruit the immense energy of these high people and their powerful pervasive organisations might bear, if only they knew that in crying for peace under the present system they were crying for the moon!

Our particular quarrel—and it is time it was taken up on behalf of the innocent consumer—is with those who, again with the best intention, call for a "change of heart." Thus Sir George Paish says to the Bishop of London: "We economists cannot save this world by ourselves. It is you Christian people who alone can save it, for, if you can get a new spirit of love and trust established instead of a feeling of suspicion and hatred, you will get a new world." And the Bishop passes this on to his Diocesan Conference, the members of which passed it on, no doubt, with accusing fingers outstretched, to their congregations. This, that genial prelate will admit, is "passing the buck" with a vengeance—one of the spokesmen for the continuance of the very system which is causing all the trouble, and which carries the germs of war perpetually in its veins, calling upon the authority of the Church to blame *us*! Against whom, pray, does that hero, the hard-working, tax-paying paterfamilias, harbour feelings of "suspicion and hatred"? Against no one—he hasn't the time. His heart, if he had time to unlock it in the midst of trying to bring up a family decently on ends which barely meet, would be found to be in the right place, healthy, and overflowing with the milk of human kindness. Will my Lord Bishop note, will all his fellow prelates note, that if this harassed creature does not extend his right hand in friendship to his foreign neighbour, it is not because he does not want to, but because his right hand, like his foreign neighbour's, is tied behind his back. What is needed, in short, is not a change of heart, but a change of system. Then, and only then, the impulses natural to the heart will be able to flow. If they flow foully when set free, then, and only then, clerical denunciations will be in order.

Hypocrisy and the Cenotaph

It takes more than the professors and adherents of the "change of heart" school, however, to make a world. There are realists, too. And the world has a horse-sense of its own by which it *knows* of the inevitability of war under a system where an increasing number of objects are forced to compete for entrance to a diminishing goal. What the world now

knows by instinct, it is the work of the New Economics to uncover so that the world may see and know it also by reason, and be able to put its finger on the sore. Meanwhile, despite disarmament efforts without end, the world continues to arm at the rate of £2,000,000 a day; the League of Nations, deferring to that humaneness of humanity referred to, decides that we shall kill each other in future with six-inch guns instead of twelve-inch ones; while Japan, anxious to observe the niceties of modern Westernism and not to offend, wages war without declaring it. Yet what would you? The System compels: the world is simply being wise in its generation.

Let us at least know where we are, and be frank about it, without humbug. Disillusioned and sad, we knew, even before the last one's dead lay easily in their graves, that the next war had *not* been ruled for ever out of court. And at our failure to make the last war the War to End War we hang our heads, and wait. Or we talk of other things, for we dislike being reminded of our smashed hope. Therefore, in order to be able to stand bareheaded at the Cenotaph in November, or wherever we may be, without quite scandalous hypocrisy, it will be meet to remember during those two minutes of silence that the fathers, husbands, sons, and friends who were killed in the War and who will be the subject of our thoughts, died, so far, in vain. Then, as the bugles sound the réveillé and we admire the wreaths of remembrance at the foot of the Cenotaph, let us murmur to ourselves: "At this moment the nations have prepared diphenylchloroarsine, diphenylcyanoarsine, and cacodylisocyanide, of any of which one part in fifty million is calculated to produce such acute mental distress as to send sufferers mad, permeating and making it impossible to wear any known respirator, and forty tons of bombs containing these gases, carried by only twenty airplanes, would effectively obliterate what remains of London's sanity. At this moment, too, each nation is trying to find something more devastating." The two minutes' silence is soon over, but the desperate tale goes on. Only seven years after the Unknown Warrior was laid to rest in the Abbey, Parliament was asked whether, in view of the developments in gas warfare, instruction in the use of respirators should not be compulsory in all schools; and only nine years after peace was declared a Frenchman could for the first time enlist in a liquid-flame-throwing squad. During the War that was to End War the maximum weight of bombs dropped by airplanes in any month was twelve tons; but after a decade of peace France, for one, was ready with 4000 planes to drop a hundred and twenty tons in one raid. And before long the world will possess (perhaps it possesses it now) a 300-m.p.h. plane, ascending and descending vertically, containing no human occupant, being steered and its bombs released by a wireless control many miles away. Again, if poison gases are considered inhumane, how about some plane-loads of dysentery bombs, or diphtheria, typhus, typhoid, yellow fever, plague, malaria, cholera, or anthrax—the last accounting for beasts as well as for humans? And if these in turn are not considered practical, why not a few incendiary bombs containing phosphorus-thermite? Since chemical factories can get into uniform overnight it becomes a problem, as Mr Stuart Chase remarks, only of Government purchasing agents taking their choice.

And yet! Economically, at least, war is a rosy time. Ask the men who fought it. If they are honest they will confess that over and above their personal griefs

and losses and wounds they had the time of their lives. And they had. Physical insecurity, even unto death, was a trifle compared to the balm of economic security which descended on individuals and nations alike. The Machine functioned as it has never been allowed to function before or since; money, economic blood, at last flowed in proportion to the nations' needs (though still erroneously as a debt); all shared in the general plenty; and the more hardships we underwent the healthier we became. It is true that only the living can speak. But one can hardly suppose that the slain would hanker after a return to this world if they knew what it was like, or prefer a probably cancerous old age of enforced thrift to their short agony in what they believed to be a glorious cause. Their duty, as they saw it, is done. But peace they took with them. For just as war proved economic peace, so "peace" proves economic war. And what a war it is, this so-called peace! What casualties! While 165 people committed suicide from poisonous gases in Great Britain during the war year of 1917, the peace year of 1926 claimed 943 casualties from the same cause. The 1933 Report of the N.S.P.C.C. shows a rising curve of suicides among people of moderate incomes, and a rising curve of cruelty among the poor. (One begins to be cruel to a child when one has to look upon it primarily as another mouth to feed.) Truly our peace hath her casualty lists; but they are not tabulated. Said M. Caillaux: "When the bugles sounded 'Cease fire' peace was not made; papers were signed, and that was all."

The sum of the matter appears to be this. The present system, with its insistence that economic units must fight for the capture of disappearing export markets or starve, manufactures against its will all the ingredients of war; and only a spark or pretext is needed to combust them. The desire for peace, on the other hand, is in all hearts. Unfortunately, however, the commodity is not yet on the market for consumption, the machinery for producing peace not yet having been erected.

CHAPTER XI

WAR, TYRANNY, AND WASTE (*Continued*)

The first of our three salvage expedients has expanded into a chapter by itself. And truly, if such isolated prominence brings it to the attention of even one additional father or mother of future potential cannon fodder, it is entitled to every inch of space its exposition occupies.

In the present chapter we must dispose of the remaining two expedients used to keep the System afloat, namely, the issue of fresh bank loans and the practice of sabotage.

The Power of Finance

Finance gets its power from the fact that it, and it alone, supplies Industry with money. The relationship between the two is strictly that between moneylender and client, and Finance possesses all the chief attributes of the ordinary moneylender, including that gentleman's well-known grip. It seems curious that Industry should be in anybody's grip; one would think it was powerful enough to stand on its own feet, and itself be tempted to play the tyrant. It is not so, however, and the spectacle of Industry being swallowed by Finance reminds one of nothing so much as the slow but persistent passage of a hen down a snake's throat, feathers and all. You cannot believe the throat capable of swallowing the hen; the thing is clearly impossible. And then you see it happen.

Finance is proceeding to control the entire country, lock, stock, and barrel, and, by getting it into its debt, virtually to own it. In this sense how many farmers' farms does it already own: how many shipowners' ships: how many Lancashire cotton mills: how many factories: how many businesses: how many theatres and hotels: how many private and professional individuals' houses? The Simon Commission deplored the fact that the ignorant Hindu villagers were *owned* by the rascally moneylenders—but are we any better off or any wiser?

It must not be thought that only industries which cannot pay pass into the hands of Finance. These are poor game, and Finance is after the fattest birds. A most illuminating concrete example of this was the way Finance wrested an extremely prosperous film business from William Fox. Mr Fox was not only able to repay the money Finance had loaned him, but anxious and willing to do so. But Finance wouldn't take it! Being interested in power, it wanted, not the repayment of its loan, but ownership of the industry and the opportunities this gave to acquire more money and more power wherewith to gobble up other industries too. Well, Finance got Fox's film business away from him, with the natural and grimly consoling result that, knowing nothing about films, it found itself incompetent to run it, as its shareholders found out to their cost. The story is told, chapter and verse, with names and dates, by Mr Upton Sinclair, and we must remember that this author, in a life devoted to telling the truth, has never yet been sued for libel. It may be, of course, that the Fox case is exceptional, but this is not likely. And in any case, a system of

power-getting under which such things are *possible* (whether exceptional or not) stands self-condemned.

There is a further significance in this revelation: namely, that Fox fought Finance, not Labour. A typical capitalist, he had no quarrel with Labour, only with the financial system under which he and Labour had to work together. It is possible to generalise from this particular case and say that, while it is true that the System puts Capital and Labour at loggerheads often enough, the world's fight to-day is *not*, as advertised:

CAPITAL *v.* LABOUR

BUT—as *never* advertised—

INDUSTRY *v.* FINANCE
(*i.e.* Capital plus Labour)

The noisy fight, with its strikes and lock-outs, is the small one, and it is the convenient means used to distract our attention from the big, silent one. In a nation where so much attention is devoted to politics and so little to realities it is as well to know who is on which side, and what the issue is, and to remember these things at the next fatuous Election when we hear the Conservative and Labour pots and kettles calling each other black. They are not black; they are just pale dull grey. The black party does not offer itself for election; for it is already in office, and always in power.

The magnitude of Finance's power has been implied throughout this book, and the difficulty is not to understate it. Lest, however, this section take on the complexion of a scandal-sheet, we will content ourselves with enlisting a few outside opinions and offering a few facts.

His Holiness Pope Pius XI:

"Control of financial policy is control of the very life-blood of the entire economic body."

President Woodrow Wilson:

"The great monopoly in this country is the monopoly of big credits. A great industrial nation is controlled by its system of credit. The growth of the nation, therefore, and all our activities are in the hands of a few men who chill and check and destroy genuine economic freedom."

Again:

"We have been dreading all along the time when the combined power of high finance would be greater than the power of the Government."

And again:

"Some of the biggest men in the United States, in the field of commerce and manufacture, are afraid of somebody, are afraid of something. They know there is a power somewhere so organised, so subtle, so watchful, so interlocked, so complete, so pervasive, that they had better not speak above their breath when they speak in condemnation of it."

President Roosevelt:

"The practice of unscrupulous moneychangers stands indicted in the court of public opinion and rejected by the hearts and the minds of men."

Dr Hewlett Johnson, Dean of Canterbury:

"Jealously have we guarded the right to coin cash. Carelessly have we delegated the right to create credit. . . .

He who controls money wields sovereign powers. . . .

Producing nothing, the Bank of England can control all production, wielding a power not less tremendous because exercised so silently. . . ."

Mr G. K. Chesterton:

"The main mark of modern government is that we do *not* know who governs, *de facto* any more than *de jure*. We see the politician and not his backer; still less the backer of the backer; or (what is most important of all) the banker of the backer. . . .

Throned above us all, in a manner without parallel in all the past, is the veiled prophet of Finance, swaying all men's lives by a sort of magic and delivering oracles in a language not understanded of the people. . . .

Yellow journals talk a great deal about Red troubles. They ask indignantly where the Communist money comes from. But does anybody know where any money comes from?"

Mr Henry Ford:

"The British Strike was put over; but British Labour does not know it. It was jockeyed by the people who are always putting things over, the same people who put over the wars! If I named them you wouldn't publish it."

Major C. H. Douglas:

"Just think what it means. Two or three great groups of banks and issuing houses controlled by men, in many cases alien, international in their interests and quite definitely anti-public in their policy, not elected and not subject to dismissal, able to set at naught the plans of Governments; producing nothing, and yet controlling all production."

Mr F. C. Clegg (President of the Bank Officers' Guild):

"Industry is losing its position as the pivot of our social organisation, and that position is being taken by finance."

Mr Keppel (Administrative Commissioner to the International Chamber of Commerce):

"The most significant fact is the independence of the Chamber from Government control or Government influence. . . .
Probably the last field in which it will exert a direct and controlling influence will be upon Governments, but there is no reason for a lack of confidence as to ultimate success in this field also."

Mr Lloyd George:

"They (international bankers) swept statesmen, politicians, jurists, and journalists all on one side, and issued their orders with the imperiousness of absolute monarchs who knew that there was no appeal from their ruthless decrees. This settlement (the Dawes Reparations Pact) is the joint ukase of King Dollar and King Sterling."

Dr H. N. Brailsford:

"Finance is the real sovereign and arbiter of modern industry. It is the surviving autocracy of our age. It makes these ebbs and flows of trade as the moon governs the tides. It regulates business and rations employment. . . .
We must master this obscure financial power which lords it over the world."

Mr W. E. Gladstone:

"From the time I took office as Chancellor I began to learn that the State held, in the face of the Bank and City, an essentially false position as to finance. . . .
The hinge of the whole situation was this: the Government itself was not to be a substantive power in matters of finance, but was to leave the money power supreme and unquestioned."

(And Disraeli's frank opinion of the Bank of England after it had refused to lend the Government money to buy the Suez Canal?)

We are at least in good company. The considered opinions of men such as these, of different generations and countries, of all parties and professions, should be worth listening to; and if we cannot include the opinions of the archangels of the financial hierarchy it is because they are, perhaps wisely, silent—"Never explain, never apologise." Well, these representative men all agree about the power of Finance, and all except the two banking officials condemn it either explicitly or implicitly. There must be a basis of factual evidence for such unanimity. There is, and the facts are legion. It is impossible to deal with them at once fully and systematically. The few appended here are an indication rather than an inventory. They will at least show that while the power of Finance is on the one hand not only international but supernational, yet on the other it is concentrated, through absorption and amalgamation, in the hands of a few. They will show, too, the secrecy of Finance, so that the Consumer, our unfortunate hero, has neither knowledge nor redress.

1. Between 1918 and 1934 twenty-six new central banks were founded.

2. Each of these twenty-six banks contains an article in its constitution specifically placing it outside the control of the government of the country in which it is situated—an ambassador, so to speak, from the Court of Finance, enjoying immunity.

3. With the establishment in 1930 of the Bank of International Settlements the structure of the Kingdom of Finance is complete, the B.I.S. forming the apex. It is situated at Geneva, and is able to keep as close touch as it wishes with the League of Nations. (We cannot state the fact, but we can ask

the question: Which is top dog in Geneva, the Bank or the League? Just as we can ask the similar question in miniature: Which is top dog when the Governor of the Bank of England and the Chancellor of the Exchequer meet—which of them is temporary and which (apparently) permanent; which knows more about the business to be discussed; which is dependent upon the advice of permanent officialdom and which, being (apparently) a permanent official himself, is independent of advice; which is beholden to the see-saw votes of an ignorant stampedable electorate, and which secure in his position; and, most of all, which wants to borrow money, and which has money to lend?)

4. Loans are not made without conditions. For example, the U.S.A. made a loan to Belgium on condition that she reduced her budgetary expenses by approximately a hundred and fifty million francs. Belgian M. Jasper, finding this foreign finger in the domestic pie unpalatable, not unnaturally said that the only conclusion to be drawn was that Belgium was under the rule of American and English financiers, and exclaimed: "What, then, is the use of the Belgian Parliament?" Or, we may add, of any Parliament?

* * *

5. The Bank of England has no branches, but five strapping daughters—the "Big Five." Around 1926 for every new church which was built the "Big Five" built 100 branches. In 1926 they opened amongst them five branches a week; in 1927, seven branches a week. Even so, the "furious building of these extensions" (1927) "is barely keeping pace with the increase in banking business."

6. By interlocking directorates the Bank of Mon-

treal, the Canadian Bank of Commerce, and the Royal Bank of Canada, across whose counters pass more than 75 per cent. of the deposits of the people of Canada, control the industrial system of Canada.

7. The chief officers of seven J. P. Morgan banks held between them 2242 directorships in industrial corporations (1933).

8. Twelve appointments were made to the Bank of England in 1926. Four of these contacted with Germany; eight with the U.S.A. Of the 1932 directorate, 9 of the 26 directors were associated with Anglo-foreign merchant banks, 6 with important foreign or international concerns, and only 8, or less than one-third, are partners in more or less exclusively British industrial companies.

* * *

9. The directors of the Bank of England have elected Mr Montagu Norman to the post of Governor each year since 1919.

10. After thirteen years' work as Governor Mr Norman broke silence to say: "I approach the whole subject" (the Depression) "not only in ignorance, but in humility. It is too great for me." He was re-elected Governor.

11. Mr Norman, at the beginning of his reign in 1920, and in collaboration with the late Mr Benjamin Strong, of the Federal Reserve Board of America, determined on a joint policy of deflation in England and America.

In America, where they do nothing by halves, the deflation assumed such proportions—by 1921 trade was at its lowest for twenty years, business failures rose in two years from 3 to 14 per cent., and the Comptroller of Currency stated that the deflation had cost the nation more than the War—that the policy was reversed. In Canada the deflation ruined tens of thousands of farmers, business men, and manufacturers, and was described in the Canadian House of Commons as having set the clock back for a generation. But in England, where we do everything by halves, the deflation was just bearable because it was gradual.

12. Mr Norman did not submit his policy to the electorate. The people are not consulted where their purse is concerned. As in the case of the deflation, so in the case of the return to the Gold Standard in 1925. As Finance's representative in England, Mr Norman has not been called upon to account for the disastrous results, the misery and loss, the bankruptcies and suicides, attending both his policies. We blame Winston Churchill for the return to the Gold Standard in 1925, and the Government—a platoon of yes-men where Finance is concerned—or fate, for the deflation. We blame events, while the man who helped to set them in train is re-elected for his fourteenth year.

13. Mr Norman can restrict foreign issues on the London market. No financial house finds it worth its while to bring out a foreign loan where Mr Norman disapproves. He regulates borrowing within the Empire; and his frown has been felt in Riga.

14. At home, Mr Norman helps to guarantee the tone of the *Times*.

15. Also at home, Mr Norman on occasion interferes directly with Government decisions. The *Manchester Guardian* correctly reported Mr Shinwell, ex-Minister for Mines, as saying: "I can say that with a certain public appointment Mr Montagu Norman, Governor of the Bank of England, not only objected to a decision reached by the responsible

Government Department and its Ministers, but insisted on the appointment of another person, and also further advised the salary he was to receive. In this case the views of Ministers were overruled and Mr Norman's advice accepted. The salary granted was also twice as high as that originally proposed."

16. For the rest—trifles. Mr Norman gives no interviews; he has travelled as Professor Skinner, registered in a hotel as his valet, stopped a ship when he wanted to leave it, and caused the concierge of the Hotel de Cap at Antibes to exclaim, out of the wealth of his experience of the regime of royalty at the hotel, that kings and princes never received such marked attention as this soft-hatted Currency Dictator of Europe.

*   *   *

17. The rest of the world has its small quota of Montagu Normans scattered about it. And the Bank of England has its equivalent abroad in the Federal Reserve Board, the Bank of France, etc.

18. The Morgans, Zaharoffs, Warburgs, Kahns, and Kuhns of the world, like Mr Norman, shun the publicity which mere statesmen and industrialists bask in; and they are not more strictly accountable to-day to the nations among which they operate than the Rothschild of a hundred years ago, who misled London about the result of the battle of Waterloo, though he himself had witnessed it, and made a million pounds out of the panic he manufactured before news of the victory came to hand.

With such facts passing in perpetual review before him, the Consumer lifts his voice to confirm the opinions already quoted. It is clear, he says, that the world's sovereign is Finance, and the Gold Standard its crown; Debt its sceptre, and the peoples its footstool.

It is not necessary to impugn the honesty and motives of those who wield the money monopoly, for with the best intentions in the world they cannot solve an economic problem by a mechanism which is mathematically incapable of "delivering the goods." The men may be good men, but the system they operate remains obsolete and definitely injurious to mankind. And the nature of financiers' despotic activities is such that we shall probably not go far wrong if we say of them what Goethe said of Napoleon, that they went forth to seek Virtue, but, since she was not to be found, they got Power.

Sabotage

The word, as we saw, was coined from the sabots thrown by angry French workmen into machinery—an action performed with disguised sabots ever since.

Sabotage is the third device by which the System has postponed its breakdown. If you start with a state of affairs that makes it impossible to disburse enough money to buy Industry's output, nothing is more natural than that you should proceed to destroy some of that output. This procedure we can call Active Sabotage, and the following are some typical examples:

Throwing coffee into the sea, or burning it.

Slaughtering 60,000 sheep in the San Julian area in the Argentine and burning them (1933).

Stoking engines with wheat.

Throwing away thousands of pounds of tripe, a staple dish of the French middle class, at Les Halles in Paris.

Burning or throwing on the refuse dump vegetables and fruit at Covent Garden.

Destroying 2,500,000 acres of English arable land by allowing them to revert to pasturage or go out of cultivation between 1919 and 1930.

Throwing fish back into the sea.

But there is a simpler way. Why go to the crude trouble of growing things and then destroying them, when the same object is attained by refraining from producing them in the first place? This, the neater, subtler method, we can call Passive Sabotage, and can define it as any deliberate act which prevents and discourages production while consumption remains unsatisfied. Clearly, this expedient is of vast range, and includes such devices as the substitution of man-work for machine-work, the shelving of new inventions and technological processes, rationalisation and restriction schemes, schemes for "making work," and ca' canny methods of performing it after it has been "made," *et cetera*.

In the matter of shelved inventions it is very difficult, for obvious reasons, to obtain authoritative information. Once in a while details leak out and will be revealed by some public-spirited public person; but even then, only in a vague unsubstantiated way. Thus the phrase, "It is said," must precede the statements that "American oil interests have retarded the investigation of fuel alcohol," and that "English oil interests have smothered an admirable substitute for petrol derived from paraffin." Perhaps the most invigorating indictment of the process of secret sabotage is the bitter cry of the Powermistress-General in *The Apple Cart*, a cry inspired in her creator by the shelved invention of the late A. W. Gattie for effecting an enormous saving of labour and breakages in the handling of crates in transportation. Says the author in his Preface: "But instead of being received with open arms as a social benefactor he found himself up against Breakages Limited. The glass blowers whose employment was threatened, the exploiters of the great industry of repairing our railway trucks (every time a goods train is stopped a series of violent collisions is propagated from end to end of the train, as those who live within earshot know to their cost), and the railway porters who dump crates from truck to platform and then hurl them into other trucks, shattering bulbs, battering cans, and too often rupturing themselves in the process, saw in Gattie an enemy of the human race, a wrecker of homes and a starver of innocent babes." But neither Bernard Shaw nor his Powermistress-General distinguishes between Industry, the practitioner of sabotage, and Finance which forces the practice upon it.

Instances of "making work," on the other hand, and of using man-work where machine-work is available, are broadcast for all to know and applaud, since such devices, though wholly against the grain and spirit of progress and modernity, are regarded as laudably quixotic attempts on the part of national and municipal governments to stop the leaking ship. Here are a few of the teacups which are being used to bail out the sea:

Coal instead of oil is being used on Rumanian railways in order to "make work" (1933).

For the same reason river barrages being constructed in Germany are being carried out with man-work instead of machine-work (1933).

For the same reason the contract for the new bridge at Saskatoon strictly limited the amount of machinery to be used in its construction (1933).

For the same reason New York State, in granting money for making roads, stipulated that 90 per cent. of it should be allocated to man-work, thus debarring the use of rock-crushers and other labour-saving machinery (1933).

In the case, too, of restriction of output all is open and above board and nothing privily hidden away. The word *Rationalisation* is a stroke of genius, for who can stand up to this six-syllable-shooter which promises, above all things, reasonableness? From the producer's angle restriction of output *is* reasonable under the duress of the present economic system; it is not only reasonable but imperative: but under no economic system can it be called either reasonable or just from the standpoint of the consumer, unless and until he is sated with the commodity the output of which is to be restricted: and, so far, Production and Real Demand have never reached this devoutly to be wished for state in respect of any commodity.

The difficulty in submitting examples of restriction of output is that they will most likely be superseded by the time they appear in print by more drastic and intensive ones. Under the stress of the System's accelerating toboggan-slide restriction schemes are drawn up, operated, found wanting, amended, cancelled, and drawn up again in intensified form almost daily. We take our examples, therefore, irrespective of date and of whether the particular schemes and edicts have lapsed or not. If they have, we may be sure that they have been followed by others more drastic, and can confirm this by referring to the daily newspaper. Delving back nearly a decade for data has this advantage—it makes clear that the sabotage of the restrictive type is practised in prosperity as well as in depression.

In 1926 the Egyptian Chamber of Deputies passed a law limiting the cotton acreage for three years to a third of every plantation.

The President of the Texas State Banking Association said that Texas was taking the lead in an effort to curtail the 1927 cotton crop. (A newspaper report observes: "Bankers are expected to exert considerable influence in this direction since they hold the whip-hand when it comes to loans.")

The Cuban sugar-growers recommended their President to limit 1927's sugar crop to 4,500,000 tons.

In 1933 the U.S.A., Canada, Australia, and the Argentine agreed to reduce their acreage of wheat by 15 per cent.

Restriction of rubber under the Stevenson and subsequent schemes is familiar to all.

So is that of tea under the Indian Tea Association.

So with coffee, potash, diamonds, oil, silver, etc., until the list grows long.

(At this point the Old Economic Adam in us waxes strong. He is bursting to exclaim, "But these things are absolutely necessary to keep up the *price*." The New Economic Adam in us thanks the Old One for coming to the point so quickly. He agrees with every word, though he would say, not "to keep up the price," but "to *try* to keep up the price." For it remains the fact that not a single success has been attained—except a partial one in the case of Tin—in keeping up the price of commodities by restriction. What you keep up, Old Adam, is not the price, but the present method of price accounting. And as long as you follow this method, by which all costs must go into price, and all price must be collected from the consumer, and do not—as you do not—distribute pur-

chasing power enough for this to be done, you cannot keep up the price. It is precisely from this whirligig that the New Economics would rescue you. May we proceed then? . . .)

Commenting on the sabotage of restriction the *Financial News* says: "It is an ironical reflection upon our present state of civilisation that the only real successes of internationalism in recent years, in the economic field, seem to consist of co-operation in reducing the supply of certain much-needed materials."

Somewhere between the active and passive brands lies another kind of sabotage. In this case the goods produced are not destroyed but withheld from consumption. We might name this kind Abortive Sabotage. Thus in 1925 nature blessed Iowa with one of the biggest maize crops in her history. But Iowa considered it a curse. In the words of the *Times*: "The bountifulness of nature threatened her with financial catastrophe"; and she was forced to appeal to the banks for help, with the result that financial loans were made to the farmers to enable them to withhold their maize from the market indefinitely. Let Mr Wade, City Editor of the then *Daily News*, comment on this exhibition of an economic system standing on its head. It matters not at all that Mr Wade writes about cotton and Lancashire and 1926, instead of about maize and Iowa and 1925, since whatever the thing, the place, or the time, the cry is the same. Says this Editor:

> "A good many people must have rubbed their eyes during this week, when they read that prospects of a great American cotton crop had caused a dismal outcry in Lancashire. Anyone would have thought that the people who a very few years ago were organising all sorts of movements to prevent a world

shortage of cotton, and were really dreading that scarcity, would this year, on hearing of a great cotton crop for the second year in succession, sing aloud their doxology for the bounty of God. A crop estimated at 15,600,000 bales. Here is the fat year, indeed. 'Let us lament,' say the Lancashire cotton spinners."

Thus does sabotage, at one time a damper on Industry and at another its bonfire, save the world from collapsing from glut. But its acts are criminal for all that. They are criminal because the goods are wanted. Consumption is *not* sated: mankind does *not* receive for consumption anything like as much wheat, maize, cotton, rubber, oil and the rest as it needs or could do with. Men, women, and children the planet over have a gnawing Real Demand which they perpetually cannot turn into Effective Demand, and goods have either to be destroyed or denied them because the financial system is unscientific and haphazard, unrelated either to Real Demand or to Potential Supply. Think of the Real Demand there is for houses: with Industry bursting with materials for making, furnishing, and stocking them, with the Prince of Wales inveighing bitterly and righteously against slums, and (in 1933) a quarter of a million men in the building and allied trades twiddling their thumbs! Imagine what kind of an outcry there would be if the Postmaster-General should coolly inform the nation that he could carry only a limited number of letters by post, because, although he had plenty of pillar-boxes and mail-bags and postmen and sorters and vans, he was not prepared to authorise the printing of the necessary stamps—a stamp being the ticket, or purchasing power, for mailing letters. The System, in failing to issue money tickets as and when and where

required, corresponding to the goods available, fails to link Real Demand with Real Supply, or Consumption with Production; though this, as we have agreed, is Finance's one and only proper, worthwhile function.

We will halt the unending procession with two further facts. The *Financial Times* reported both of them in June 1933:

> The U.S. Secretary for Agriculture, Mr Wallace, announced that the *maximum tax* under the Agricultural Relief Act *would be levied* to pay benefits to farmers and *to finance operations for a gigantic crop reduction* for three years.
>
> The appearance of salt water in some of the East Texan oil-wells means that this oil-field's best days as a producer are numbered. No drastic reduction in the field's production, however, is expected overnight. "Nevertheless," the report proceeds, "*oil-men feel that*, with the unmistakable signs of salt water, *this field has shot its bolt and that better days are ahead for the oil industry*, from crude to petrol. The feeling is that *the big record-breaking production of the East Texas field is no longer the menace it has been to the oil industry*."

These two gems are offered to the reader as souvenirs, so to speak, of the spirit of sabotage, with no comment beyond the writer's italics, together with the suggestion that the boll weevil and the rat—for being tireless workers in the cause of Sabotage—be pronounced holy creatures, and held immune; on the ground that no *reductio ad absurdum* can plumb the depths of absurdity already reached by a system, which, like the present one, inverts its purpose.

For the Reader's Examples and Notes

Power of Finance

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For the Reader's Examples and Notes

INTERPOLATION ELUCIDATORY

concerning

THE PERMANENCY AND GROWTH OF UNEMPLOYMENT

In looking back over the past chapters we seem to have taken this point much too much for granted. We have all along *implied*, and frequently *asserted*, that the displacement of men from employment as a direct consequence of the introduction of machinery was a steadily progressive phenomenon. But in dealing with such a vitally important, interesting, and human question it is not enough merely to imply and assert. We must produce the facts, and draw unprejudiced conclusions from them.

Until this century it was impossible to answer the question with any degree of assurance or accuracy. The industrial process was incomplete, the facts were still in the making. Men could only grope—and hope. But round about 1920 facts were disclosed which tended to show that our industrial civilisation had reached its saturation point as far as "employment" was concerned, and that the modern world had silently stumbled upon a fateful and gigantic milestone.

There have always been two sides to this question, and two schools of thought trying to answer it, both schools being equally sincere. One school maintained, and still maintains, that although a piece of machinery may throw large numbers of men out of work,

nevertheless these men are eventually re-employed in other work which further scientific invention brings into being: that they find work in making the machine which makes the machine which has thrown them out of work: or in new trades which science alone made possible (the radio industry, for example): or in the work of distributing the mountain of goods which the new machinery pours out (petrol stations, for instance): and so on. The other school of thought agrees with this, but it goes further. It maintains that there is a limit to the process: that sooner or later the rate of displacement will exceed the rate of reabsorption: that we neither need nor want a petrol station at *every* corner, as it were: and that in being reabsorbed into the industrial process of the Machine in the past, men were merely equipping the monster to dispense with them altogether.

So we find these two schools of thought in constant conflict for more than the last hundred years, but unable to reach a conclusion because their weapons, being fashioned out of guesses, opinions, and half-established facts, were necessarily inadequate. As a typical piece of umpiring in this long and ineffectual conflict Charles Babbage wrote, in 1835: "That machines do not, even at their first introduction, invariably throw human labour out of employment must be admitted; and it has been maintained, by persons very competent to form an opinion, that they never produce that effect. The solution of this question depends on facts, which, unfortunately, have not yet been collected." The question is whether they have been collected to-day, a hundred years later. Let us see.

It is certain that in its early stages the Industrial Revolution caused no net unemployment. On the contrary, it caused a huge increase in employment. As the volume of articles increased, so their price fell and the flood-gates opened to a world-wide wave of demand: the foreign market opened its mouth, and England alone was equipped to feed it. Not only was there new work for all the displaced hand-labour, but the very loins of England were called upon to double her population in fifty years, so that there might be workers enough to operate her new machines. True enough, it was a case of more inventions, more dismissals; but it was equally a case of more inventions, more goods, cheaper goods, more trade, more trades, more engagements. Always the slack of one cycle was taken up by the expansion of the next cycle; and the cycles overlapped. During the nineteenth century and the early part of the twentieth the unemployment problem literally solved itself. In Stuart Chase's telling phrase, "The total firing rate did not exceed the total hiring rate over the whole period."

And so the world sailed along, without crisis from this quarter at least, until 1920 or thereabouts. From that date onward? We shall see. Now England's unemployment figures since the War, accurate and striking though they are, cannot fairly be used as guides, since they too, like so many other things, can be put down to what was so conveniently called "the Depression." What we have to find, if we want a reliable guide, is a community flourishing and shipshape; then, if we can examine its statistics of employment for its most prosperous period, we shall be able to see what is really the tendency. America supplies us with just such a spectacle—the flourishing America of the years 1921 to 1929, with its up-to-date equipment, its eagerness, its initiative, its powers of organisation, its wealth. And with no "dole" to discourage

work and swell the ranks of the unemployed. If the present economic system were able to operate successfully anywhere, America during those years would surely have been the place. What do we find? An array of impregnable facts, all proving that during increasing prosperity the demand for human labour was falling.

1. According to the U.S. Department of Labour, *the drop in the number of factory workers in the U.S. between April 1923 and April 1928 was approximately 1,250,000 persons.*

2. The *New York Times* published the following index figures compiled by Mr Evans Clark:

	Factory Employees.	Production.
1914	100	100
1919	129	147
1924	*116*	158
1927	*115*	170

3. According to the U.S. Department of Commerce, the number of workers decreased, while production increased, as follows:

	1919.	1925.	Decline.
Agriculture	11,300,000	10,700,000	600,000
Manufactories	10,670,000	9,770,000	900,000
Railways	2,035,000	1,860,000	175,000
Mines	1,050,000	1,050,000	..
	25,055,000	23,380,000	1,675,000

(*The decline for 1929 registered over 2,000,000*, but that year touches the beginning of America's depression, and we are expressly avoiding that for the reason that it is unnecessary for the proof of our case.)

4. According to the Report of the U.S. Committee on Recent Economic Changes, the relation

between the total output and the total number of workers employed in the same four major industries —agriculture, manufactories, railways, and mines—in the U.S. was as follows:

During the period 1900 to 1920—

Output increased 70 per cent., and the number of workers increased 40 per cent.

And during the period 1920 to 1929—

Output increased 25 per cent., but the number of workers DECREASED *more than 7 per cent.*

At last we can appreciate what thoughtful men of all nations mean when, after carefully considering the facts, they are moved to say such things as these:

"For a hundred years every census tabulated an increasing number of persons employed in factories; now suddenly since the War, with an increasing population, there are fewer persons in factories. Something cardinal has happened; some mighty corner has been rounded."

American Stuart Chase, in *Men and Machines.*

"We are face to face with something entirely new in human experience."

British G. W. Gray, in his Presidential Address in 1933 to the Institution of Mining and Metallurgy.

If the reader happens to be one of those people who cannot be bothered with figures or who habitually distrust them, the same tale is told by *tendencies* as is told above by figures. Consider, for instance, that the tendency of every healthy modern industry is to progress, through the semi-automatic process, to the automatic process (the very proper object of a human-

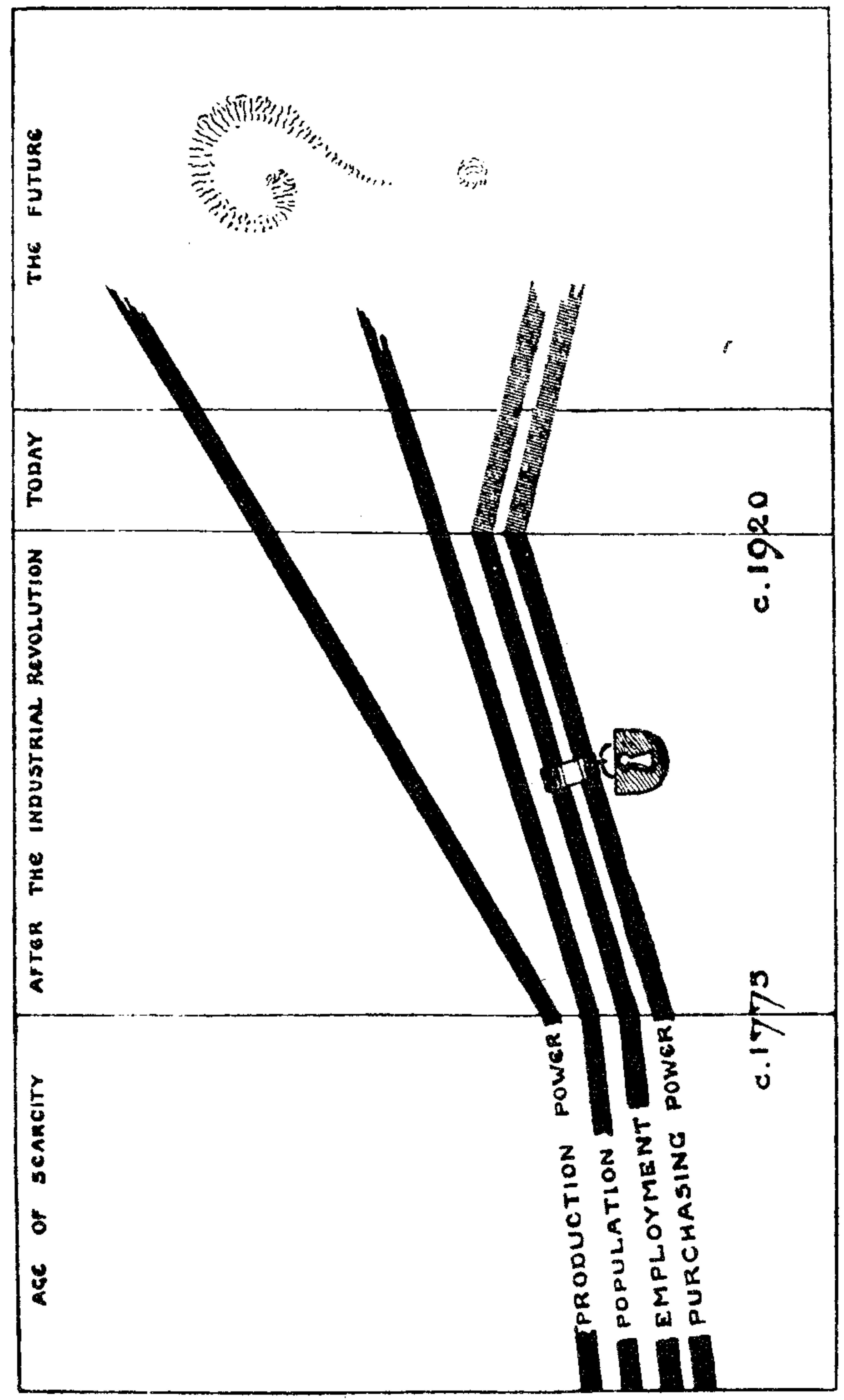
labour-saving device being *to save human labour*!). To fix the matter in our minds with a striking example, consider the particular automatic process for making, say, motor-car frames. There is a plant in existence in which the raw material, in the form of steel strips, undergoes twenty-one processes without either human aid, interference, or even human supervision, and after one hour and fifty minutes the motor-car frame emerges complete down to its coating of enamel. This plant requires no sleep and is no respecter of the Sabbath. The "displacing" tendency is not confined to factories. It is in our lives, in our streets, in our homes. Thermostat furnaces, dial telephones, talking pictures, traffic control lights . . . there would be no end to the list. Consider, too, both the acceleration of the modern process and the consequent speed with which new inventions in one field press against new processes in another, so that between them a double quota of men are squeezed out of work. The Macmillan Committee in its Report on the Relationship between Finance and Industry concluded that

". . . recent mechanical inventions have created a problem of surplus labour in the agricultural regions of the world, at a time when technical changes were tending to reduce the chances of employment in industry, and when simultaneously the substitution of artificial products (for example, artificial silk for cotton) was narrowing the market for, at least, some agricultural products."

The picture here is a muddled one; but then the state of affairs it depicts is a muddled one. But one impression stands out clearly. It is one of Man as Employee caged within walls of steel, which represent the Machine: the walls move, now from the front, now from the rear, now from the sides: the enclosure grows ever smaller, slowly: and in the middle of it is a bloody pit. In short, it is a nightmare.

Whether we pay attention to figures or consider tendencies instead, there can be little doubt that the world is in possession of enough evidence (the absence of which a hundred years ago Mr Babbage deplored) to make it pause. For ourselves, having considered both the figures and the tendencies, we see the matter as a diagram—a diagram so simple that it can be drawn, with sufficient accuracy to establish its point, on the back of an envelope. Here it is:

THE WORLD SITUATION IN ITS SIMPLEST TERMS



While the alarmist may obtain a certain gloomy satisfaction by extending the lines of this diagram in their respective directions *ad infinitum*, others will be content to realise that something is bound to happen, for better or for worse, before the lines extend themselves in their present directions for any appreciable distance. That constructive realist, the New Economist, on the other hand, would turn the diagram from one of incipient tragedy and disaster into one of release for mankind from bondage, by the simple device of removing the manacle which binds together the Money and Employment Lines, and allowing the Money Line, instead, to coincide with the Production Line. Then, and then only, you have a true diagram representing a sane people living in a sane world; increasing gradually in population; producing just the amount it needs or wants for all purposes; having just the right amount of money to buy what it produces; sweating just the right amount to produce all it needs or wants for all purposes; making the Machine do as much as possible; and so finally liberating itself for the more strenuous and exhilarating work of leisure.

To sum up, then. He would be a rash or an obstinate man who would still insist that the workers, white-collared and collarless alike, who are thrown out of work by the introduction of machines, will be reabsorbed by new inventions and new machines. But there is probably no man so rash or obstinate that he would not be careful to add the words, "in the long run." For our part, we would not care to base a case on, or to take refuge behind, so dubious and perhaps fateful a phrase, since the most rational reply to it is the prayerful question, "*How* long, O Lord, *how* long?" We shall rather ponder over those figures and tendencies, and realise that they reveal what

happened during the most propitious period in the affairs of the most highly developed community which this earth has yet seen, and so join the company of the open-minded and foreseeing. For these Mr Gray and Mr Chase are two of the spokesmen, and we join with them in announcing, Something mighty has happened to mankind, something new.