UNEMPLOYMENT OR WAR

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PART I

INTRODUCTION

"If anyone advance anything new, which contradicts, perhaps threatens to overturn, the creed which we for years respected and have handed down to others, all passions are raised against him, and every effort is made to crush him. People resist with all their might; they act as if they never heard nor could comprehend; they speak of the new view with contempt, as if it were not worth the trouble of even as much as an investigation or a regard; and thus a new truth may wait a long time before it can make its way."

GOETHE

CHAPTER ONE

THE AGE OF SCARCITY

Though we may not know much about it, all of us are interested in a vague and pleasant way in what we call Instinct. It fascinated the great French naturalist, Fabre, to such an extent that he devoted the whole of his long and patient life to studying its workings in animals. But at the end he could only say that it was Instinct. What is it that tells eels to leave a Connecticut stream and guides them not only to the sea but to the deepest part of the Atlantic, where alone it seems they can spawn? What shows the way back to land through a thousand miles at least of sea to the new generation of eels? What guides the homing pigeon? How do herds of buffalo know where salt lies though it be hundreds upon hundreds of miles away? Like Fabre we can only answer, Instinct. All we can say seems to be that Instinct is ancestral experience somehow in our possession, knowledge we do not have to seek because it has been mysteriously transmitted to us. How the mystery is effected, whether for instance the transmission is pre-natal or later, is beside the point: the accomplished fact is evident and sufficient in itself, and the particular kind of instinct which concerns us here is the one that warns us to be careful for the future,

the one that impels each of us to play for safety and security. This instinct is a form of fear, a very reasonable form too, and we may call it the Fear for To-morrow's Dinner. Careful. . . fear . . . the future . . . security . . . what do these words signify? Surely they mean that the normal condition of man, saint and sinner alike, is that of being "up against it," up against some permanent, dreaded, age-old circumstance in the world that he has never been able to banish or change. Without argument we at any rate know that ours is a world that has never shown the least tendency to treat man as a spoilt darling. What is this thing then that man has always been up against, this thing that has caused such phrases and words as care, security, thrift and fear for the future to enter man's vocabulary and find daily use there? The answer is, Scarcity. Always Scarcity, actual, probable or possible. From Adam or the first amoebic slime (according to the way of thinking) until to-day it has been so, without intermission or relief. Animals searching for prey, killing prey, fighting over prey, are guarding against possible scarcity and taking care for the future, even though the future in their case is distant only as far as the hand from the mouth. Nomadic tribes raise their flocks and herds, guard them and fight for them because they represent safeguards against the uncertain supply of the future. Abraham and Lot part company to avoid Scarcity. Marauding bands carry off women from the lowlands into the hills to ensure against a scarcity of their own kind. Sun-worshipping, fire-worshipping, burnt sacrifices, Christian

prayers for rain, all alike are propitiatory offerings to the powers beyond man's control begging that the great natural forces of heat and water be released to do their part towards supplying man's needs. And these offerings are made oh I so reverently, with mingled fear and hope. For if the sun shine not nor the rain fall Scarcity will stalk the land as famine or drought. The man saving so that his children's need to save may not be as great as his own has been. Robbery; the beetle rolling its huge wealth of dung, and still rolling; the miser; thrift; the captain of war returning with enemy spoils to increase his riches at home; the British Navy existing primarily as an insurance against Britain's potential scarcity of food; Tartar hordes sweeping across central Asia; and so on: all are but examples of the instinct that works for Tomorrow's Dinner as less secure than To-day's. As we have said, it is an instinct derived from fear. And fear for the future arises in turn from a chronic state of Scarcity. If man were surrounded by abundance, and knew moreover with absolute certainty that he and his descendants would always be so surrounded, he would live more hand to mouth-he could afford to-and carefree would become commoner than careful.

The Degree of Scarcity

This matter of Scarcity will crop up so often in the next few pages that it will be as well before proceeding to find out precisely what we mean by it. It is not claimed, for instance, that Scarcity is so severe

that the majority of men die of starvation or cold. Now and then it is true these things happen, but they are not the rule. Suicides, too, and famines are periodical but exceptional. No, what is meant is that the general level of man's supply of goods reaches just that nice point, at which man, though able to keep alive, is unable to live fully. He exists, but with bent back and a brow weighted with anxiety and care, so that Ruskin felt impelled to describe civilization as heaps of agonizing maggots struggling with one another for scraps of food. For though the food and the clothes and the shelter are there, there is never an ease of them, never an abundance. Or if there is, it is not available for use, cannot be got hold of, which in practice is equivalent to its not being there. Not that man fails to make effort to reach the point of abundance and ease. He tries until he dies. Practically all his time and all his energy are spent in the endeavor to supply himself with the means whereby to live, and little or nothing is left over for the exercise of his other, his creative faculties. True, those higher up the ladder get a greater supply of goods, more than they can possibly use perhaps, but the point at the moment is that they too spend all their time and energy in getting them. Man may not be able to live by bread alone but it is unquestionable that Scarcity has forced him all through history to devote virtually his whole life to getting bread. And he gets it, but only enough to keep him functioning as a dependent worker, never enough, on the average, to let him unbend his back.

In 1925 more than 6,000 taxpayers in a single

small city were in arrears. More than two million persons were unemployed in Germany in January 1926 and two and a half million were working on half time. In such cases relief, where it is forthcoming, is obviously the least amount of money that will save its recipient from starvation. Other unemployment figures for the same period in Poland, Austria and England total more than two millions. In a small city in Brazil, San Paulo, 698 firms were involved in 1925 in litigation concerning their insolvency. In 1925 an ex-chairman of the West Derby Board of Guardians said that an increasing number of genuine seekers for work were losing their reason; as there is a large asylum close to Derby he certainly had the means at hand to test his contention. At the end of 1925 half the population of Abertillery were drawing either relief or the dole: an eyewitness was moved to say that unless a miracle happened the town would be as dead as Nineveh: he reported that the people were flocking to the chapels and praying for Divine intervention. Early in 1928 there was something of a press controversy regarding the unemployment figures in the U. S. A. In the course of an article in "The Magazine of Wall Street" of April 7, 1928, Professor Irving Fisher of Yale University makes the following comments: "The recent estimate of the number of unemployed made by the U. S. Bureau of Labor Statistics show a shrinkage in the actual number of employed in all industries of 1,874,050 between 1925 and January 1928. The Secretary of Labor points out that immigration has added more than 250,000 to the population each year and that about 2,000,000

boys and girls in our native population reach the working age each year. If these figures are accepted as dependable the number of employable age who were not employed in January 1928 would be close to 8,000,000 instead of 4,000,000 as estimated by the Labor Bureau Incorporated. . . . The actual decline of 15 per cent. in employment from 1919 to 1926 becomes a decline of 25 per cent. when the increase of population is taken into account."

Such facts can be gathered as easily as daisies in May by anyone who troubles to stoop and pick them. And to them must be added the steady cry for a higher standard of living, by which is meant More Goods; and to the misery and helplessness of the poor must be added the everlasting sweat and grind of the comparatively poor. The above are symptoms of a level of life so near to starvation level that when it sags ever so little it touches it. Sir Henry Campbell Bannerman used to say that a quarter of the British population lived on the edge of starvation all their days. Such a consideration ought to shock us. But it doesn't, for in truth man is a tough thing, able to adapt himself to almost any condition and survive. We get used to things. We even get used to our own sores and, comforting ourselves with the idea that God inflicted them, go so far as to call them blessed. And just as the Hindu drinks the urine of a cow with immunity and pleasure because he has done so for so many centuries, so we accept the emaciation in body and spirit of the lowest class and poverty's many other sores as part of the Divine Order, complacently, because Scarcity has imposed its conditions on us for

so long. We can hardly imagine things otherwise. In this connection the Reverend J. Townsend tried to make the best of a bad job. In 1786 he published a dissertation on the Poor Laws in which he objected to the relief of the poor because it tended to "destroy the harmony and beauty, the symmetry and order of that system which God and Nature have established in the world," adding: "Hunger is not only a peaceable, silent, unremitted pressure, but, as the most natural motive to industry, calls forth the most powerful exertions."

Probably this is as good a place as any to deal with the oft made suggestion that what the world is suffering from, is not scarcity of wealth but its unequal distribution. The implication is that poor men are poor because rich men are rich. Now of all the bees in the Socialist's sentimental bonnet this is perhaps the one with the loudest buzz. Capital levy is the note the buzz takes, and though of late it has grown fainter it may help to lay its ghost if we dissect the ludicrous sting of this ridiculous bee. Taking the population of Great Britain as 45,000,000, and assuming the average family to consist of 4.5 persons, there are 10,000,000 families to be considered. Let us further assume that each of these families is in possession of at least three pounds a week, or $800 a year. This is an amount so small that even the reddest Socialist will be willing to keep his hands off it. What then is the amount of the Country's additional income that is to be seized upon, divided and redistributed? This question has been answered by Professor Bowley in his treatise on the Distribution of

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the National Income and there is no reason to dispute his figures. Referring to the period immediately preceding the War, he estimated the total annual income of Britain, over and above $800 per family, at $1,250,000,000; which sum divided among the 10,000,000 families, would benefit each of them annually by $125. And that is the end of the matter. Imagine for a moment, however, England, and how she would fare, if every family received $925 annually and none more. The absurdity of the idea is self-evident. The $125 would be spent in a very few weeks and the poor would once again be as poor as they were before. Then, almost immediately, they would be poorer still. For since no one at all would be able to buy, say, a country house or a motor, everyone lacking the money to do so, industry would sicken for want of orders and quickly begin to pour forth a stream of unemployed where before it poured forth a stream of goods. In other words, the rich man would lose the comforts and luxuries he was used to, and the poor man would lose his job. So that an "equitable" distribution of "wealth," even if practicable would result in an increased scarcity for everyone in the land except the most ignorant inefficient lowest paid unskilled workmen who now get less than $800 a year.

This can hardly be the Socialist's object, yet every scheme based on the supposition that the world is suffering from unequal distribution of wealth leads to this lame conclusion. The world suffers not from unequal distribution but from a chronic shortage of total supply: that is, Scarcity.

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Religion and Scarcity

The rude fact of Scarcity on this planet must have taught man very very early in his career the virtues of thrift. Those who were not clever at seizing their neighbors' goods by cunning or force found thrift a prime condition of their existence. For if things are scarce they become valuable and periodically they become so scarce and valuable that men fight for them. Human conduct has always been based upon a state of Scarcity, and it was to mitigate his doom that man turned the crust of the earth's land over and over, clod by clod, year by year, and dragged the seas, and spread networks of water over the barren places of the earth, and bored holes in its rocky places, and devised a hundred ways of killing animals and breeding them to kill more. Yet never did all this ingenuity succeed in banishing Scarcity from the earth, for even as man's labors increased he himself multiplied and the number of mouths and bellies and needs grew in proportion. The fruit of man's efforts for a happy life has never been sufficient; it has always been so insufficient that when it forthcame men have always fought for it, century after century, there never being enough to go round. When these fights are fought with clubs or guns we call them war, but they go on just the same in times of so-called peace, though the weapons used are different. Agriculture, mining, fishing, lumbering, animal breeding, these things some men devoted their energies to, so that others could turn their produce into food and clothes and dwellings, while yet others by craftsmanship and art were able to make useful and beautiful things. Yet the result was always so small, and the food and clothing and dwellings, not to mention the pretty coveted luxuries, were still so scarce that having made them men killed each other for their possession. And that is the essential history of the world.

In this sense the story of man is appallingly simple. It has moved in a single direction and along a single line. No other factors in life have been able to budge humanity from its necessitous path. They have been either sucked into the main or tossed aside. And this is true in spite of the appearance in the world from time to time of strange great men who have proclaimed ways of life contrary to the world's drift. These men point, if not in a directly opposite way, at least in a tangential direction. Such men are apt to found religions. But being abnormal they do not fit in with the world's ways, and consequently the world has very little use for them, in practice. Humanity, while giving a no doubt very interested glance over its shoulder in passing, yet passes them by, and continues to move on precisely as before. For this reason religions make little headway against the vigorous demands of life. It is not that reverence or belief is lacking, but simply that an economic life has to be lived, a family reared and the rest of it, as well as a God worshipped. The former being the more insistent we shall find that the influence of religion on life is insignificant compared with the submission of religion, in practice, to life. I t is a question of two forces and the stronger wins. For instance, Christ said "Love one another" but He abolished neither

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war nor hate. Dostoevsky tells a story of the Grand Inquisitor in Seville who threw Christ into prison when He revisited the earth during the Spanish Inquisition. Christ's only answer to His accuser was to kiss him and disappear.

Answering the question of what befell the Grand Inquisitor, Dostoevsky writes, "Oh, the kiss burned the old man's lips always, but he didn't change his ways." Nor is there evidence that man as a result of two thousand years of Christianity has more love in his composition than he had B.C., or that a member of the Assyrian Empire, say, exhibited less love than a member of the British Empire to-day. What, too, of ants and bees whose communities display such perfect understanding and mutual service, yet never sat on the Mount to hear the Sermon?

Such men as Jesus, Buddha and Mahomet assuredly appeal to man's nobler aspirations but their appeal does not alter man's conduct. The only tribute man pays is one of lipservice and ceremonial; he cannot afford to pay further: the struggle for existence will not let him. Consequently man has never been able to submit his conduct to the great moral codes, since it is based upon an economic plane, which, imperative and inexorable, consists of Scarcity, the production of an inadequate number of things, and a fight for them. It follows therefore that those closest to their spiritual leaders are those least desirous or capable of waging this economic fight. The world dubs such men failures. And far from moving hand in hand through life, obedience to religion and economic prosperity move in opposite directions; so that the more Christian, say, a man is the poorer the time he has in this world. His compensation of course is a store of spiritual happiness through the radiance of which he contemplates the next world, where, so he is told, he will make up for all he has missed in this one. Naturally such men become less and less interested in the economic fight for the things of this world, and either remain failures in the world's eyes or enter secluded buildings set up in the name of the great abnormal men, their leaders. The point is that humanity meanwhile marches along its economic road, regardless. But even the most loyal religious followers follow only to a certain degree. A man who went the whole hog and gave all his goods to feed the poor and took no thought for the morrow would quickly find himself on the public charge in the workhouse or asylum. And what is impracticable for an individual is utterly impossible for a community like a nation. What, for instance, would happen if England in some inexplicable fit of Christlike behavior said to the other nations: "Take you the oil concessions in Mosul, and you the diamond mines of South Africa, and you the rubber of the Straits, and you our native coal: God will provide for us!"? And then—the War. We are told "Ah, but that was war" Quite so: but it was also the 20th century. People talk as though war were an accident, and rare, and therefore to be excused and forgotten. No accident, war has been a chronic factor in the history of man, present as well as past. At the moment of writing Mexico and China are indulging in the habit. The truth is that religious exhortations, however noble,

falling on a world whose normal state is one of Scarcity, are without commensurate power or effect. They do not stand a chance. The instinct for self preservation, like a cuckoo, ousts them. It is as if someone said to the fishes, "Ye shall not swim, but walk on the dry land: it is nobler so." Shall not the fish reply, "We wish to make sure of existing before we try to be noble"? If the fish be frowned on for their answer shall they not lay the blame upon the scheme or force or Being that permitted self preservation to be their first and strongest instinct?

Scarcity results in the struggle for existence, a phrase ominously familiar to man. It is a struggle that is age-old and not the less severe when it is being waged with long hours and too few bits of metal or paper than when fought openly with bullets and bayonets. It is an inexorable struggle. It is a whole-time job, and quite literally man has no time for any other. If the tenacious scared clinging to a bare subsistence wage, in preference to living a scratch life based on hard sayings, is Mammon worship, then the majority of humanity has always served Mammon and not God. The world wags on a foundation of competition, survival of the strongest, ingenuity, war, monopolies, big business, long hours, and not on charity and sweet reasonableness. The latter men may pine for but the former are the inevitable fruit of Scarcity. And when Scarcity loads one of the scales no amount of holy exhortations placed in the other will lift it off the earth.

At the same time there is no reason to disbelieve in a religion simply because it won't work. It may well be that the conditions and not the religion are wrong. But a fervent belief in, say, Christianity should not blind us to the fact that Christians are not practising it, and indeed cannot practise it—while Scarcity lasts. A true estimate therefore of religion's influence upon economics, or the art of living, sets it perilously near zero. Consequently, if we dispense hereafter with mention of religion and deal only with economic facts, we shall at least be able to feel that what we are examining is the main force of human conduct.

Scarcity To-Day

Let us therefore pick up the threads of the story where we summarized the history of the world and came to the conclusion that it was in the main an appallingly simple tale. It is a tale of Scarcity and a fight. That is all. The rearing of man under these Spartan conditions has not been without benefit: it has called into play all man's strength and ingenuity and courage, and developed the muscles of his arm and brain and soul. Scarcity has also called into play, as we have seen, the instinct that warns man to make every effort to secure a share of whatever is available and cling to it, even to death. If we attempt to judge of the depth and strength of this instinct we must measure the length of time it has been at work in man, and consider how long Scarcity has walked with him. The answer is, as long as the waves have been beating on the rocks, from ages immemorial, so that man was not when Scarcity was not. Indeed so deeply rooted is it that we cannot but suppose that were a miracle to remove Scarcity from the world, the in-

stinct springing from it would nevertheless persist for many centuries. To-day it is woven strong in the texture of our beings. It is in our common speech, and the words and proverbs of everyday reveal the motives on which human conduct is built. "Put by for a rainy day"; "The struggle for existence"; "The will to live"; "Take care of the pennies and the pounds will take care of themselves"; "the survival of the fittest"; "Many a mickle makes a muckle"; "Can you 'manage' with this?" "Try and make it 'go far'"; "Waste not want not": the halo round the word thrift; the derivation of the word security; and so on—all indicate that man still regards Scarcity, now as always, as a permanent bedfellow.

The Fear for To-morrow's Dinner is as great today as ever it was, for man's security has not increased nor his care lessened. On the contrary some people hold the opinion that man has actually gone backwards in this respect, believing that he enjoyed a greater sense of security in the Middle Ages. However this may be, it is certainly misleading to point to such things as the recognized slaveries of Athens, Rome, Africa and America, and assume that their abolition necessarily meant a step towards greater security and freedom. It all depends on what is put in their place. As a matter of fact there is a great deal to be said for slavery. A slave enjoys a vast sense of security. He is provided with all the necessaries of life and as long as he is a good slave he can be literally secure, or free from care. He need take no thought for the morrow. He has to work and obey, it is true, but so do we to-day. For slavery has not been confined to the ancient world and negroes, and economic slavery is more than a glib phrase. The basis of slavery is compulsion, and if a man employed in modern industry imagines that economic forces are not compelling him, just as much as the whip and chains compelled the galley slaves, to do work which he very likely loathes, let him try the alternative, stop working and walk out of the factory. He will soon find that no one wants him and the imminence of hunger will drive him back as quickly as a whip. In their wisdom men do not try this hopeless alternative: they remain at work until they either drop out or qualify by old age for a state pittance. It may be thought that the whole civilized world is too big a unit to indict. These things may happen in poor old Europe, as a legacy of mediaevalism, a relic of harsher days, but in the New World surely they find no room. There, where men are settled on fertile land large enough to make them yawn and surrounded by vast natural resources, surely economic slavery, even if planted, strikes no root.

Let us turn our attention then to Pittsburgh, one of the most "prosperous" cities of the world and one that has enormously increased the New World's real wealth, so that it is not unfair to assume that there, and in similar hives of prosperity and progress, the men of the New World should be best off. What are the facts? From 1907 to 1912 Pittsburgh was subjected to a social survey by the Russell Sage Foundation. The survey revealed that half the working people of Pittsburgh were living on the border line of destitution, that their wages were barely enough

to provide food and shelter to men of strong bodies who could keep going under the daily strain of twelve hours' hard manual labor. The investigators found, too, that a large part of the population lived in tenements, got their drinking water by pumping it from shallow wells by hand, disposed of their sewage in open privies, lived two or three families to the room, while other families lived in unlighted cellars. Here is the statement issued by the Senate coal strike investigating committee through Frank R. Gooding, its Chairman:

"Conditions which exist in the strike-torn regions of the Pittsburgh district are a blotch upon American civilization. It is inconceivable that such squalor, suffering, misery and distress should be tolerated in the heart of one of the richest industrial centres of the world.

"The committee found men, women and children living in hovels which are more unsanitary than a modern swine-pen. They are breeding places of sickness and crime.

"They constitute fertile fields for the sower of communism and other doctrines which teach the overthrow of the American Government. Industrial leaders of America cannot permit conditions to continue.

"The dispute in the Pittsburgh coal fields is more than a local fight between the union and a group of coal operators. It is an industrial war that affects the entire nation. A remedy must be found to relieve the shocking conditions which the committee has found in its first-hand survey in the coal mines and camps."

And this in a New World city that truly stands for mighty wealth. Perhaps the saddest and most enslaving aspect of all is that, riddled and debased by

the highest typhoid and infant death-rates in America, these sons of Columbus, Washington and Liberty despaired of improving their lot. They had lost hope. They did not dare to join a trade union. Redress through politics was impossible for politics, too, were in the hands of the slave owners. In 1907 Mr. French Strother went to Pittsburgh to collect facts about the early life of the late Henry Frick, then alive, who succeeded Carnegie in the management of the steel industry. Not a word could he get out of anyone. Pittsburghers, rich and poor, were afraid of Frick and they deftly changed the subject. Mr. Strother visited Pittsburgh again in 1926 and says that he found the same fear, although Frick was dead. What is this if not slavery? The kind of way the citizens put is was—"Pittsburgh is still mediaeval," and, "This town takes orders." It is therefore no exaggeration to say that the greater number of men to-day are slaves. They are not negro slaves, they are economic slaves. Their slave driver-in-chief is their fear for the future and he cracks his whip of hunger with an effect that never fails. That men are not officially recognized by society as slaves neither alters the fact of their slavery nor mitigates its conditions. Mr. St. John Ervine tells a story of a faithful old clerk such as Dickens liked to describe who went through life inevitably saddled with the Fear of To-morrow's Dinner, and who smiled for the first time since his youth when he was told by a doctor that in six months he would be dead. For those six months he at last enjoyed himself and lived free from care on his nest-egg of savings. More than a story, this is the level

of life along which the great majority of mankind is crawling with bent back to-day. There are of course rich men to-day but then there have always been rich men, richness being a comparative state. Where today we find magnates financial, magnates industrial, magnates hereditary, yesterday were found chieftains, kings, barons, high priests and squires, and one would dispute the contention that there were proportionately more rich men to-day than in the centuries gone by. Be that as it may, it is certain that for the mass of mankind the question is not "What shall I spend my money on?" but "How can I get money to spend?" Sir Auckland Geddes, while Ambassador to the United States and looking to America as the source of future hope, said "In Europe we know that an age is dying. . . . A realization of the aimlessness of life lived to labor and to die, having achieved nothing but avoided starvation, and of the birth of children, also doomed to the weary treadmill, had seized the minds of millions." It must not be gaily assumed, therefore, just because we live in an age of aeroplanes and radio and super This and super That, that mankind is necessarily freer and happier, or possesses a greater sense of security than of old. In practice Scarcity still accompanies man through life, and war still dances with death and ghastliness in Scarcity's wake.

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To sum up briefly this matter of Scarcity: The history of man without distinction of race or country has been accompanied by chronic scarcity of the

things he needs and desires. The degree of Scarcity, while now and then reaching an acuteness that causes widespread death and ruin, is not severe enough as a general rule to kill man or make him despair utterly: it permits him to live but only just to live, so that his whole energies are bent upon the supply of material goods and bodily wants. Dim back in the ages this state of Scarcity developed in man an instinct of care, a fear for the future, that ranges from the virtues of thrift to the vices of miserliness. It has also resulted in a literal struggle for the little that actually does come forth. And this struggle is so imperative that it comes first in man's consideration and conduct, and no code of life that does not tend to assist man in the struggle, however noble and inspired the code may be, stands the smallest chance of being put into practice; so that as long as the struggle for existence is necessary the mainspring of human conduct will be and must be, economic, and not religious or anything else. Finally there is no reason to suppose that the struggle is any less arduous to-day than it always has been, in spite of an age of scientific conquests and wonders.

Or even more briefly:—Man has always lived in a state of Scarcity, which has given him deep instinct of care and fear for the future, and has made life a continual struggle. This struggle is so bitter that it controls his conduct. Judged by man's conditions and habits to-day, this scarcity, this instinct and this struggle are as great as they ever were.

BUT . . . and notwithstanding all that has been said, . . .

CHAPTER TWO

THE AGE OF PLENTY

The age of Scarcity is over.

Coming jump on the heels of the last chapter which pictured humanity in a Sisyphean struggle, forlorn and endless, this might be taken for a misprint. It is no such thing however. On the contrary it is so true and so important a fact that it will bear immediate repetition. The age of Scarcity is over. A gigantic thing to say. And so imbued are we with the instinct for struggle and thrift that it is almost impossible for us to comprehend it. Nevertheless, far from a misprint, this statement is a bombshell of good news.

Let us probe the bombshell gently. The first thing to notice is that though Scarcity has gone we do not know it. We know that something big and vague is wrong with the world, but somehow we can't put our finger on it or name it. We know that the world is undergoing vast subtle changes but we also know that we are not in full control of them. Blind to their true meaning we are therefore inclined to take a pessimistic view, and to fear the worst. "No one unless he is drunk with optimism can deny that the world is very sick and it may be a sickness unto death"—thus Sir Philip Gibbs. "We have come to the crossroads

and no one knows the way out"—thus H. G. Wells. "The future is very dark. We have reached the twilight of civilization"—thus Dr. Brailsford. We have all heard people say that they don't know what the world is coming to, and we have probably said it ourselves. What we really mean is this: we have reached an age in which Scarcity is absent from the world for the first time, and we don't in the least know how to adapt ourselves to the new conditions. That is what we mean but we don't know it.

There are several reasons for our ignorance. It is hardly surprising, for instance, that man hasn't noticed the new conditions seeing that the old ones have been with him for so long that he accepts them as both eternal and inevitable, taking no more conscious notice of them than of the air he breathes or the lungs he breathes it with. The new conditions came unnoticed because the old ones had long lain unnoticed also. Man was not alert for such a stealthy, yet infinitely radical change. Secondly, the instinct referred to in the last chapter is strong in us and will doubtless persist long after it has ceased to have any real function, so that we assume Scarcity to be with us still, and conduct our lives accordingly. Thirdly, there is the pressure of that blind semi-automaton, Custom. For, strange as it may seem, man does not appear to respond to new facts even when they benefit him. He will long cling to the old order, suffering from it smiling, and warily eschew a new truth which, did he embrace it, would break some of his chains. Before man is capable of embracing a new truth it seems that a world of prejudice and tradition

must be overcome and swept away. In other words, man has to be born again, never an easy process.

Artificial Scarcity

There is a fourth reason why we are ignorant of the fact that Scarcity has passed from us—an important one. It is that our distributing system, devised expressly for Scarcity, has become obsolete with the disappearance of the latter, and yet, though obsolete, is still in use. This distributing system can function effectively only when there are too few goods to distribute: in other words it functioned effectively when Scarcity was present. But now that there is actually an excess of goods, or potential goods, it can still only distribute a fraction of them. Real Scarcity has therefore been succeeded by Artificial Scarcity, and in practice, across the counters of the retail shops, that is to say, man cannot tell one from t'other. Yet Real Scarcity and Artificial Scarcity are both of them very real though very different things. Real Scarcity is the non-existence of enough things or the inability to call them into existence. Artificial Scarcity, on the other hand, is the existence of enough things or the ability to call them into existence, but the inability to get hold of them. It is the former, Real Scarcity, from which men used to suffer and the latter, Artificial Scarcity, from which he suffers now. This, however, is not to say that our bombshell of good news was a dud or to admit that we have merely exchanged one hopeless thing for another. For in the case of Real Scarcity it is the substance that is

lacking, while in the other the substance is there, in full measure and running over, and only some cog in the mechanism of distribution is at fault. This cog, whatever it is, is gigantic in its false functioning since it effectually masks and nullifies the whole of man's new good fortune. Still, since man alone is responsible for the presence of the faulty cog, there is always the hope that he will see fit to mend it. Similarly, it is no use devising a method, however perfect, of distributing goods if there are never enough to go round; whereas on the other hand, if we can satisfy ourselves that there really and truly do exist enough goods to go round, it surely cannot be beyond the wit of man to devise a method of distributing them to his satisfaction. Real Scarcity lay in nature and man was helpless to overcome it until he overcame nature. Artificial Scarcity lies in a mechanism which, being man-made, can be altered by him.

The Conquest of Nature

The banishment of Real Scarcity, after millions of years, may well stir us to wonder and amazement. At last man has rid himself of an incubus which clung to him as persistently as the Old Man of the Sea to Sinbad. It is a miracle if you will; a miracle moreover performed by man himself. How was it brought about? In a word, the knell of Scarcity was sounded when man achieved certain conquests over nature, and harnessed her forces to help him accomplish the work of supply which hitherto he had not been able ever quite to catch up with, work he never

so hard. The history of this conquest makes a fascinating story, and perhaps the most fascinating thing about it is that it happened only yesterday. From ancient times onwards men have skirmished curiously but somewhat blindly around nature's fortress, but not till very recently did a shot penetrate. The Greeks with their passion for exact thought uncovered some of the exact rules by which nature works: as did such men as Galileo, Copernicus and Newton. Later, the alchemists of the middle ages, diverted by the lure of gold, worked darkly amid a welter of retorts and crucibles till their backs were bent and their beards white. The master jack of all trades, da Vinci, peered at nature from a dozen angles: witches muttered incantations, herbalists gathered grasses and medicine men developed quackery into an art. But none of these things led anywhere. These men fired shots at nature but they were always blank shot. Activity always went hand in hand with ignorance, and man through all the changing fashions still led the same kind of life bound by the same kind of conditions. Nature, her secret inviolable, remained powerful and picturesque, beyond man, and her thunder was still to all intents the anger of Jove. The first shot that really counted was fired in 1774, millions of years after man set out on his journey, when one James Watt, then holding a post at Glasgow University, happened to contemplate the action of steam; with the result, to make a long story short, that work hitherto performed by the muscles of men and animals was successfully accomplished for the first time in existence by a piece of inanimate mechanism. Watt

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and his modest engine were not unlike Abraham and Sarah in that of themselves they were but simple, trusting, hopeful things; but the light was upon them and their seed was destined to cover the face of the earth. Machinery, motivated by steam, spread stealthily on a scale beyond prediction. Watt being British, however, Britain was in the field first, and very soon England began to do such wonderful things with her machines that she thought it would be a fine thing to exhibit them to all the world. "For," said she—and the Prince Consort in particular—"when the other nations come and see how well and easily and quickly we can turn raw materials into things people want simply by putting them through machines they will assuredly send us all their raw materials and the result will be that our new factories, and therefore our people, will thrive on the diet." Thus came about the Great Exhibition of 1851 of which the Crystal Palace still stands as souvenir. As it was predicted so it came to pass. The nations arrived at Hyde Park and marvelled duly and went away and sent England their raw materials with orders to turn them into finished goods. But it also happened that they took away with them the secrets of the machines and the methods. They came and saw and admired and went away and copied. The Great Exhibition therefore happened to be the agency which spread machinery through the world, and after it civilization was industrialized in a single swoop, and in a boom of which no end is yet in sight machines grew like mushrooms. The world had entered the "Machine Age.

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Two of the most important dates of our era therefore, and indeed we cannot be sure that they are not the most important in man's whole history, are 1774 and 1851. By virtue of experience and new invention the Machine grew, decade by decade, ever more powerful Physics, chemistry, mechanics and the other branches of pure science were applied to industry and became of the first practical importance; ideas previously realized only in engineers' dreams quickly became possible and were translated into steel. So that to-day the Machine works on a diet not only of steam, but of steam and electricity and water-power and oil and combustible gases and rays wrested from the obscure ether; all of which forces can be regarded as forms of solar energy as distinct from the energy derived from the muscles of animals and men. For machinery is simply the medium or instrument through which man makes solar energy do the greater part of his work for him. And oh! the amount of work the Machine has done, is doing, can do! It thrives on work, insatiable, and it is literally true of the Machine, under the system by which it operates to-day, that the more work it does the more vital it becomes that it should do still more. There is something of a nightmare in this picture of a colossus suddenly bestriding the world, a colossus whose iron heartbeats are identical with the heartbeats of the bestridden community that tends it. Trade is the comprehensive name given to the work done jointly by Man and the Machine, and it is necessary to emphasize the paramount importance of trade in any civilized country to-day, affecting as it

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does the well-being of every individual in the land. The importance of trade is thus a true measure of the importance of the Machine. We reach therefore the simple and quite recognized conclusion that not only has Watt's engine become colossal and worldwide in itself, but—what is obviously of profound significance—upon its steely descendants depend utterly the livelihoods of the majority of Western peoples. It was such considerations as these that stirred Samuel Butler's imagination. "We have come to such a pass," he wrote in *The Book of Machines,* "that, even now, man must suffer terribly on ceasing to benefit the machines." Again: "The machines will only serve on condition of being served, and that too upon their own terms. . . . How many men at this hour are living in a state of bondage to the machines? How many spend their whole lives, from the cradle to the grave, in tending them by night and day? Is it not plain that the machines are gaining ground on us, when we reflect on the increasing number of those who are bound down to them as slaves?" Written in the nineteenth and read in the twentieth century, Butler's vision seems more prophetic than fantastic.

The Machine's Capacity

However, it is not our business here to wonder whether the Machine is assuming an Erewhonian life or why it grinds us underfoot with its whirring wheels. Rather our business is to show that the Machine exists to-day mightily, and that it is capable

of producing, easily, quickly and well, enough and to spare of every material thing man can reasonably need or desire.

I do not know that there is any better way of proceeding than by facts and figures. Those which follow were not, as far as one can tell, marshalled or compiled with any ulterior motive, so that inasmuch as they do not seek to prove any particular theory they may be judged reliable. They have been selected haphazardly on purpose, a motley batch, and in some cases they even achieve the picturesque, but they should not be the less convincing for that. For the rest, the difficulty has been, not to find data, but to choose wisely from a surfeit of it.

Power and Production in General

(1) The League of Nations prepared a Memorandum on Production and Trade for presentation at the Economic Conference in 1927. The findings which concern us are briefly as follows: if 100 be taken as representing conditions in 1913, the corresponding figures for 1925 are these:

world population	105
world production	107
world trade	105

The *Westminster Bank Review* considered the estimate of Production too low.

(2) The result of a comparative enquiry into Britain's post-War and pre-War wealth, as embodied in the means of production,

was published in The

Times Engineering Supplement at the end of January, 1921, in these words:

"After making allowance for all deterioration that has occurred none of the firms reports that it has less plant than it had before the War, while four-fifths of them state that they have more, in some cases four times as much."

Mr. Edgar Crammond, managing director of the British Shareholders' Trust, confirmed this in a speech about the same date. He said:

"Our industries have enormously developed on the lines of standardization and mass production, and the productive capacity of Great Britain is now at least 50 per cent. above the pre-War standard."

(3) In 1926.

"A new huge power plant capable of producing 240,000 Kilowatts is nearing completion in Rummelsburg, in the east of this city. Only 200 workmen and fifty clerks will be needed to keep this plant going. Had it been equipped with less modern machines, such as are still in use in several other power plants of Berlin, not less than 3,000 workmen and 700 clerks would have been em*ployed*."—*Christian Science Monitor*.

(4) In 1924.

"In December last the largest hydro-electro unit in the world was officially put into operation at the Niagara Falls Power Company's plant. The unit will add 100,000 h.p. to the power generated from the Falls without diverting more *water*."—*Times Trade Supplement,* March 1, 1924.

(5)

According to Lord Rothermere:

"The U. S. A. has 29,000,000 h.p. of electric power established in her factories—a force that is estimated (he says) as the equivalent of 290 million human workers. The total population of the U. S. A. is only 118 *millions*."—*Daily Mail,* December 15, 1925.

(6) The Machine nearly doubled itself in the U.S.A. between 1909 and 1923, according to Professor T. N. Carver, Professor of Political Economy at Harvard. In this way:

	Horse-power	
	1909	1923
Steam engines	14,228,632	16,695,493
Internal combustion engines	751,186	1,230,302
Water power	1,822,888	1,802,805
Rented electrical power	1,749,0311	13,365,628
	18,551,737	33,094,228

(7) The Water Power Committee of the conjoint Board of Scientific Societies in Great Britain reported that in 1926:

75,000,000 h. p. were used for factories and general industrial and municipal activities throughout the world.

(8) The Monthly Letter of the American Exchange Pacific National Bank, for August 1926, states:

"American productivity and efficiency is increasing so rapidly, it is bringing on an industrial revolution affecting

the entire world." According to a survey taken by the Bureau of Labor, if the output per man in 1914 was 100, it was nearly 150 in 1925 for the iron and steel industry, 117 for the boot and shoe industry, and 300 for the automobile industry.

(9) Increase in population does not correspond with this increase in production, for according to Mr. Virgil Jordan:

U. S. A. population increased between 1914 and 1920, 6.1 per cent.
U. S. A. factory production increased between 1914 and 1920, 48 per cent.
U. S. A. agricultural production increased between 1914 and 1920, 9 per cent.
U. S. A. mining production increased between 1914 and 1920, 39 per cent.

making a general increase in production of 32 per cent.

(10) In *The Magazine of Wall Street,* issue of April 7th 1928, Professor Irving Fisher of Yale University says:

“The National Industrial Conference Board finds that while the total volume of production in manufacturing industries increased by about 65 per cent. from 1914 to 1925 the automobile industry increased 467 per cent.; the rubber industry 397 per cent.; iron and steel 86 per cent.; the chemical industries 99 per cent., and manufactured food products 43 per cent.”

(11) Such data give an inkling of the power of the present Machine and the production possible with it. And we are only beginning.

What will the

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Machine's power be when man conquers further and is able to harness other forms of energy, tidal, electronic, atomic, volcanic and others now safely guarded by Nature. In these matters there is no room for the incredulous or the scoffer, from whom we may be sure Watt suffered his share.

A writer in the *New York Times* of September 15, 1926, stated that there was a subterranean source of power in Tuscany similar to the geysers in Yellowstone Park, U. S. A., which had been made to yield 50,000 watts. The same informant stated that attempts were being made to tap volcanoes for power.

Power on the Land

(1) Bulletin No. 1348 of the U. S. Department of Agriculture shows the increase of production when farmers enlist the aid of horse-power or its mechanical equivalent.

	h. p. per worker	production per worker
Italy	.19	45
France	.37	90
Belgium	.38	117
Germany	.55	119
United Kingdom	.88	126
U. S. A.	2.05	292
Indiana	2.46	365
Nebraska	4.71	910

The above figures plainly show that the New World leads the way in cultivation of the soil, and consequently the most illuminating data come from there.

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England is away behind, and it is not on her soil that the blame can justly be laid, because we have to bear in mind, on the one hand, the impartial estimate of the late Prince Kropotkin that England could not only grow enough food for her present population but by intensive methods could feed 75,000,000 mouths, and on the other hand, the estimate that by 1923 a round two million acres had reverted to pasturage from war-time cultivation. Obviously not sheer wantonness, such agricultural failure is due in a measure to a blockheaded kind of conservatism in methods, but far more than that, to the shortcomings of an economic system under which, among other things, farming in England does not pay.

(2) "Seventy-five years ago the average agricultural worker could care for twelve acres of crops; now, considering the United States as a whole, he can attend to at least thirty-four acres, and in some States, where large power units are common, the average is more than 100 acres, while on many individual farms it will run as high as 300 acres or more."—*The Index,* published by the New York Trust Company, October, 1925.

(3) As usual, electricity plays its part. According to Mr. N. M. Clark, writing in *The World's Work,* November, 1926: 100,000 electrical milkers were at that date in use in the U. S. A.; while according to a Toronto journal:

"Three million baby chicks a year is the output of a Californian hatchery, where the incubators have a capacity of 500,000 eggs, thirty tons of them, at a time. Electricity is used throughout to turn the eggs automatically

six times a day and to maintain an even temperature of 103 degrees. After twenty-one days, electrically operated gears open the long line of incubator doors so that the new chicks may have light and air."

(4) Corn, wheat, and cotton more than trebled between 1870 and 1920, though the population of the U. S. A. only increased from 45 to 106 millions. The figures given by Professor Carver are as follows:

	Corn (bushels)	Wheat (bushels)	Cotton (500-lb. bales)
1870	1,094,255,000	235,884,700	4,024,527
1920	3,208,584,000	833,027,000	13,439,603

(5) The value of farm machinery in the U. S. A. increased from about $36 per worker in 1870 to $176 per worker in 1920; which means that even allowing for a rise in prices, the farmer is using from three to five times as much machinery as he did in 1870. The result of this is that, 1910-1920, the volume of crop production increased 11 per cent though the number of farm workers decreased 9 per cent.

(6) The mechanical reaper was introduced round about 1840. It was followed by other mechanical devices such as: self-binders, seeding equipments, manure spreaders, silos, two row cultivators, high pressure sprayers, power dusting apparatuses, disk harrows, side delivery rakes, hay loaders, ensilage cutters, and a score of others, especially the "combine" used in harvesting. This instrument

was perfected only a dozen years ago, say in 1914. To appreciate the work it accomplishes it is necessary to realize that the harvesting of wheat involves, by

ordinary methods, a succession of operations—reaping, shocking, loading, hauling, stacking, and threshing. The "combine" performs all these operations at once and the grain is ready for the elevators the same day. Corn, too, has its "combine," and by its aid one of the most disagreeable farm jobs, corn husking, is eliminated.

Some of the results of the introduction of these instruments of power on to the land are as follows:

(a) In 1920 there were 246,083 tractors in the U. S. A.
In 1925 there were 506,745 tractors in the U. S. A.
In 1940 there are 2-20 million predicted.

(b) A Bulletin of the National City Bank of New York quotes:

a Kansas observer who estimated that winter wheat would soar on up to 10 million acres in Southern States that are still in sod.

(7) On the principle that a thing saved is a thing made the following find a fit place here:

(a) Mr. Caudwell, a farmer, of ·Weston, near Spalding, England, sprayed his potatoes against disease by aeroplane. The field of 40 acres was sprayed in 25 minutes; by ordinary methods it took two days to disinfect.

(b) Authority for the following is Mr. W. Hichens, late of the Colonial Intelligence Service: French seaplanes are employed to bomb the shoals of porpoises which infest the sardine fisheries of the French Atlantic Coast.

(c) In 1922 the U. S. A. began to use aeroplanes fitted with poison-gas tanks against the cotton boll-weevil, a pest which destroys nearly half the cotton crop of the world each year. With the old mule-drawn anti-pest machines only 30 acres a day could be treated, but with the aeroplanes 300 acres can be drenched with poison in one hour.

(d) In South Africa swarms of locusts 150 miles in length travel 100 miles a day. What would the effect of poison air raids on such armies of destruction be?

(e) In Louisiana airmen reached swamps otherwise inaccessible and deposited arsenical powder fatal to disease-carrying mosquitoes. On one plantation where malaria was stamped out by such methods 5,000 working days a year were saved as the result of the workers' improved health.

(f) Aeroplanes could profitably raid the schools of seals which prey on the East Coast fisheries, since it is estimated that the seal eats on an average a hundredweight of fish a day.

(8) The discovery of how to make nitrates synthetically reduced Chile's export of natural nitrates from two million tons in 1923 to one and a third million in 1925. At present therefore the world is overstocked with a food-forcing chemical.

Power in the Factory

(1) The following is from a speech made at the Industrial Remuneration Conference in 1885:

"In carpet weaving fifty years ago the workmen drove the shuttle with the hand and produced from 45 to 50 yards per *week,* for which he was paid from 18 to 25 cents

per yard, while at the present day a girl attending a steam loom can produce sixty yards a *day,* and does not cost her employer 3 cents per yard for her labor. That girl with her loom is now doing the work of eight men.

"The question is, How are these men employed now? In a clothier's establishment, seeing a girl at work on a sewing machine, I asked the employer how many men's labor that machine saved him. He said it saved him twelve men's labor. Then I asked: 'What will those twelve men be doing now?' 'Oh,' he said, 'they will be much better employed than if they had been with me, perhaps at some new industry. 'I asked: 'What new industry?' . . . At last he said they would probably have found employment in making sewing machines.

"Shortly after I was asked to visit the American Singer Sewing Machine Factory, near Glasgow. I got this clothier to accompany me, and when going over the works we came upon the very same kind of machines as the clothier had in his establishment. I put the question to the Manager: 'How long would it take a man to make one of these machines?' He said he could not tell, as no man made a machine; they had a more expeditious way of doing it than that—there would be upwards of thirty men employed in the making of one machine; but he said: 'If they were to make this particular kind of machine, they would turn out one for every 4 1/2 days' work of each man in their employment.'

"Now, there was a machine that with a girl had done the work of twelve men for nearly ten years and the owner of the machine was under the impression that these twelve men would be employed in making another machine, while 4 1/2 days of each of these men was sufficient to make another machine that was capable of displacing another twelve men."

The effects of progressive displacement of man-labor, of which the above is an example, we shall have much to say about later: the point at the moment is the increase in the number of carpets and such like goods made possible by the introduction of the steam loom and the sewing machine, and this in 1885.

(2) In 1926 the President of the Chamber of Commerce of the U. S. A. gave the following figures.

(a) In the Steel Industry two men unloading with the help of machinery, now replace from 12 to 20 men unloading by hand.

(b) In furnace charging 2 men, using a skip-hoist, lorry car and automatic weigher, replace 14 men.

(c) In pig iron casting, 7 men replace 60; in open-hearth operations, 1 man replaces 40; 12 men, with traveling cranes, do the pouring of 37 men without them; and 2 men, unloading pig iron with electric magnet and crane, replace 128.

(d) In the clothing industries:
6 men, with 2 boarding machines, replace 20 men.
1 girl, with 6 rib cutting machines, replaces 25 girls.
1 man, with 1 lasting machine, replaces 8 men.

(e) In various industries:
1 man, with 1 bottle-making machine, replaces 54 men.
1 man, with 1 window glass machine, replaces 20 men.
2 men, with 1 conveyor of coal, replaces 50 men.
2 men, with 1 cigar-making machine, replaces 15 men.
1 man, with 1 cigarette wrapping machine, replaces 100 men.

We see from these facts that the number of men and women at work before solar energy was brought

to do the work for them was 577 and that after it was introduced it left only 41 at the same work. If it is thought that the displaced 536 can be employed for any length of time in making the machines that have come to do their work for them, then the facts set forth in (1) have not been properly digested and we have learnt little since 1885.

(3) The following figures given by the U. S. A. Department of Labor can be best appreciated if it is remembered that the population of U. S. A. increased about 18 per cent. between 1914 and 1925. During these years the increase in output was as follows:

In the automobile industry .... 314 per cent.
In the petroleum refining .... 177 per cent.
In the cement .... 158 per cent.
In the rubber tire .... 314 per cent.
In the paper and pulp................................. 133 per cent.
In the iron and steel .... 150 per cent.

and so on. The same growth can be viewed from another angle. Between 1870 and 1920, a period during which the population of the U. S. A. did not treble itself, the output of coal increased 1,000 per cent., that of petroleum 4,000 per cent., and that of pig iron nearly 1,500 per cent.

(4) If the output per man is greater in the U. S. A. than elsewhere, as it is, it is because more power is used in that country. For example, according to Professor Carver, in the steel industry the number of workers in the U. S. A. and Great Britain are as 7 to 6, but the amount produced in the U. S. A. is more

than twice that produced in Great Britain, and this, he says, is due to the fact that the industry in the U. S. A. uses twice as much power per man as it does in Great Britain.

(5) According to the Boston correspondent of the *Toronto Star:*

"The flax and linen industry gives promise of being revolutionized through the invention of two machines demonstrated here (in October, 1926) by their English inventors, T. G. Booth and Norman Craik. Through the use of the new machines the so-called 'retting' and 'scutching' of the flax straw can be done in almost as many hours as it formerly took weeks."

The Rate of Power

Implicit in nearly every one of the facts quoted above is the idea of rate. That is to say, not only does the Machine produce, and produce well, and produce in great quantities, but it also produces quickly. The virtue of the Machine, in other words, lies not only in its capacity to produce but also in the rate at which it produces.

(1) As good an example of this as any is the wheat "combine," described earlier, the smallest type of which, according to Mr. N. M. Clark, performs all harvest operations for 35 acres in 10 hours.

(2) A corn "combine" husks 600 bushels a day, according to the same authority, whereas the best hand-husker can husk only 75 to 100 bushels.

(3) With electric milkers a man can milk 4 to 6 cows at once.

(4) It is the rate at which the Machine works that enabled Detroit to build 48 first-class hotels in three years, at the rate, that is, of more than one a month: just as it was the rate of production which enabled Miami, after suffering in the autumn of 1926 the worst hurricane ever experienced in Florida, in which the homeless alone numbered 50,000, to announce its readiness as a winter resort in the winter of the same year. Recovery from earthquake, fire and other "acts of God" is to-day to all intents and purposes instantaneous, thanks to the Machine.

(5) The same is true of recovery from war. This is a fact which may well alarm us for it tends to make war easily entered into and comparatively soon forgotten. In pre-Machine times recovery from war was a phrase which really meant something, for it really did take time to repair war's ravages and to fashion its weapons anew. But to-day the phrase has lost its foundation of fact and we find ourselves, *pace Machina,* emerged from an intense four years' war actually richer in wealth, in the power to produce at once, that is, and richer moreover by 50 per cent., than when we entered the war.

It was the rate of production that enabled England to turn an overnight shortage of shells into an abundance, the difficulty having never been to produce the shells but to recognize that a shortage existed.

It was the rate of production that enabled the millions of tons of shipping sunk by Germany to be more than replaced within two years of the Armistice.

It was the rate of production that was responsible for the amazing spectacle (which by the way no one

is encouraged to notice) of the standard of living being higher during the War than ever before, although for four years most of the world's energies were bent to purposes of destruction and useful peace production was clamped down to a minimum. During this period, according to Mr. Arthur Kitson, 5,000,000 of the country's best workers were taken from normal industry and the land and yet the output of goods rose 300 per cent.

(6) It is the rate of production which enables Mr. Ford to take a piece of ore from one of his mines on a Monday and let you drive

away in it on the following Thursday. It was this also that enabled him to announce his five-day week, for the meaning of this is that he can turn cars out at such a rate that he need not spend all his time doing so. Accordingly he works 40 hours a week instead of 48, and anticipates that with improvements in the Machine the week's working hours will be reduced still further.

(7) According to Major Douglas, himself an engineer, the scientific management of factories, based on the researches and findings of efficiency engineers and experts, has resulted in a rate of production per unit of labor which is hundreds and even thousands per cent. higher than that existing before. In some cases, he says, the productive rate per man-hour is a hundred times, or 10,000 per cent. greater than that of 125 years ago.

Potential Power of the Present Machine

Enormous as the present output of the Machine is, it is little to what it could produce under congenial

economic conditions, and produce moreover without the addition of any new plant, or the discovery of any new process, or a single horse-power being added to it. At its present stage of development and in its present form the Machine could do far more work and produce far more goods of every description if it were allowed to.

(1) The inefficiency with which the Machine is worked is extraordinary. The late Mr. H. L. Gantt, one of the foremost industrial engineers the U. S. A. has produced, gave as his considered opinion that the efficiency of the U. S. A. industrial machine was barely 5 per cent. of what it could be without any expansion of plant whatever. This was in 1919. While no one's figure is severer than Mr. Gantt's, expert estimates of the Machine's inefficiency, the world over, vary from 45 to 95 per cent. That is, no one qualified to hold an opinion but says that the Machine might in its present form produce half as much again.

(2) The following are samples of the widespread facts which led Mr. Gantt and others to their conclusions:

(a) "Indeed in this country (England) even in the most prosperous times a large percentage of the blast furnaces in existence are out of use."—D. H. Robertson in *Industrial Fluctuation, 1915*.

(b) "Germany has recently decided on a wholesale closing of her steel works, on the ground that their productive capacity is much larger than her share of the world's steel trade is likely to be in the forseeable future." –*Wall Street News,* November 30,1925.

The capacity to produce is still there, note, undiminished: indeed it is considered too great, despite the fact that Peace too has its uses for steel, which Krupps could supply as profusely as once she supplied shells and bayonets, battleships and guns to Mars.

(c) "Mr. Davis, the U. S. Secretary of Labor, has issued an annual report, in which it is stated that in the shoe industry 14 1/2 per cent. of the factories, if worked to their full capacity during the year, would produce 95 per cent. of all the shoes now produced.

"In the flour mills and the bituminous coal mines conditions are even worse."—*Manchester Guardian,* December 1, 1925.

(3) Major Douglas has analyzed this matter with some care. On the basis that one horse-power displaces the work of ten fairly strong men, he finds that the amount of mechanical energy used is a fraction of what it could be and should be, the Machine's power remaining what it is, and arrives at the following conclusions:

(a) "There is good ground," he says, "for stating that the subsistence basis of the civilized world stated in time-energy units represents a few minutes work per day for all adults between the ages of 18 and 40."

(b) Again: "Something over three hours' work per head per day is ample for the purpose of meeting consumption and depreciation of all factors of modern life under normal conditions and proper direction."

(c) He quotes another estimate to the effect that "two hours per week of the time of every fit adult between the ages of 18 and 45 would provide for a uniformly high

standard of physical welfare under existing conditions."

Whichever of these estimates one inclines to, and however wide the reasonable margin of error one allows, it will not affect the Machine, which, in its capacity to produce an abundance of goods easily, quickly and well, remains, beyond all hair-splitting, a staggering affair. Staggering is the word to apply in the present state of affairs when, be it remembered, the Machine does at most only 55 per cent. of what it could. If it worked "all out" the situation would be staggering to the point of overwhelming chaos, with goods stacked and rotting.

* * *

Obviously such data could be multiplied indefinitely. All however lead to the same irresistible conclusion, namely that, even at its present undeveloped stage, even with its present low efficiency, *the Machine can supply mankind with all it wants*. The words in truth are commonplace enough, but the fact which they embody transfigures them, so that they ought to burn men with the glory of their meaning and remain blazoned on their minds, significance of a mighty turning-point in human life. In other words, we return to where we started and can say that Real Scarcity has been overcome and banished from the civilized world for the first time in history. But the bells are not ringing in celebration? Nor the flags flying? Unfortunately no, and for this reason: Man is not reaping the fruits of his victory, not getting the goods which it entitles him to, and this,

quite simply, is because Artificial Scarcity is being imposed on him by an obsolete system of economics, to explore which is the object of this book. So if bells are not ringing, the dour presence of Artificial Scarcity is the reason why. But, as stated earlier, it is the victory over Real Scarcity that is the important thing, and it is this victory that constitutes the gospel of the New Economics. Yet though a gospel of good news, and bringing with it hope and the prospect of at any rate economic salvation, we must try to resist the temptation to crucify it, however startling and radical its implications may prove to be, and try to accept it. For belief in man's victory over Real Scarcity alone can arm us to vanquish the lesser dragon of Artificial Scarcity. Since once we are convinced that Real Scarcity was dispatched by the labors of our wit and ingenuity, it is hard to see how we shall permit its shadow to go on robbing us of our reward; or that we can regard its presence other than as an unwarranted impertinence, essentially removable.

For the rest, it comes to this: Here is the Machine, an eighth wonder, straining, begging to supply us—which will we allow it to be, a burden to us or a boon?

CHAPTER THREE

MAN AND THE MACHINE

One day while crossing the Atlantic some of us in the smoking-room found ourselves discussing the British dole, and it was noteworthy that everyone, I think, except myself was rabidly against it. When however my turn came I took the line that the dole, however pernicious it might be in some of its present effects, was none the less both inevitable and proper, and I maintained that it had come to stay. My reason was of course that the entrance of machinery into industry meant the exit of man from it. . . . The more work the Machine did the less remained for Man to do. . . . I did not see therefore that Tom Smith, skilled laborer, should either have to starve at home or be forced to export himself like a bale of merchandise and try to sell himself abroad and die under a foreign sun, merely because one James Watt invented a steam engine 150 years ago. . . . If the nation had burnt Watt and declared his engine of the devil, well and good; in that case no one serving the Machine could make a just claim on the nation, which would retort "I told you so.". . . . But the world put Watt among its heroes and accepted his invention with both arms wide. Consequently it must also accept the fruits of that invention. . . . A country could not recognize Watt and make its fortune out of him and then brazenly play Pilate and wash its hands of all the things that Watt had come to mean, however awkward some of them might be . . . and so on. "Sir," said a hale American lawyer with weighty joviality, thinking he had trapped me, "you wish to imply that every new invention, every improvement in industrial process, every labor-saving device, that science, in short, is the enemy of society and progress hostile to man?" "Sir," I answered, "you have said something which, under the existing economic system, is a large part of the truth. You've hit it."

And I meant it, for it is true that at present the conquests of science harm economic man, upside-down and strange as it may seem. The Machine does displace men and send them marching behind banners announcing "We Want Work"; the Machine does make the man who is lucky enough to be in work screw on the same kind of nut on to the same kind of bolt for days that run into years, until a device is invented for a machine to do it for him and throw him out of work; Samuel Butler's writings become truer every day; and in spite of the Machine men have to work as hard if not harder than they did a century ago. Queer and obviously wrong, it nevertheless is so, and where science ought to be the controlled benefactor of Man, at present it is more like an unbridled horse trying to throw him.

Wherein then lies the cause of this monstrous absurdity, this paradoxical phenomenon, by which the Machine's obvious benefits wreak positive harm and progress makes for bondage? The cause certainly

does not lie in Man, for there is nothing wrong with his efforts to better himself and nothing left to be desired in his willingness to make those efforts; and it certainly does not lie in the Machine, which has a beneficent capacity to help Man the like of which the world has never seen before. Now besides Man and his Machine there is only one factor in the situation, namely, the economic system. That is the unknown quantity. Let us take ship therefore for a voyage of discovery on this uncharted sea, nor let us be dismayed by the word economics, since it only means the way we conduct our material life.

The Rule

We shall be examining the economic system in some detail later, but already we are in a position to say that it is a system based on Scarcity. Starting from that point, then, it is clear that under the precarious conditions prevailing men had to make such rules as would tend to ensure their survival, and live by them strictly. These rules, being based on Scarcity and therefore the only possible ones under the circumstances, were very soon accepted as part and parcel of the inevitable order of life, were indeed respected to such an extent that divine authorship and authority were ascribed to them, and so far from their rightness and inevitability ever being questioned they were obeyed quasi-instinctively. Of the various rules by far the most important one was that there were to be no drones. No one was ever to be allowed to get something for nothing. If a man was cunning enough to do so he was called a thief and punished; he had broken Society's rule. If he was still more cunning he would get made a king or a priest and so become a drone, but one so powerful that none dared make him work. This did not mean that the work he should have done remained undone; it only meant that somebody else had to do the king's share of work or the priest's as well as his own. If the powerful few broke the rule with impunity it had to be mended by extra exertions on the part of the humbler members of the community, for society as a whole was forced to keep the rule. It was the only way. Scarcity piped and Society had to dance accordingly, even though the measure was habitually trodden on a mill.

This is the Golden Rule of present economics; one might truly say, of life hitherto. It was rightly considered so important that it was impressed upon mankind without intermission by the very highest authorities. The Jews, for instance, were taught that no less a being than God Himself had told the earth's first man that only "in the sweat of his face should he eat bread" and make the earth yield him what he wanted. The Christian version of the Rule was framed by Saint Paul when he declared, "If a man will not work neither shall he eat," and this version, simple like all great statements and eschewing nice qualifications, can hardly be bettered. It is impossible to exaggerate the part played by the Rule in the past. Reverenced universally, it has never been contradicted in theory or practice with any measure of success. It has been obeyed where Jehovah's ten

and Christ's one commandment have been broken and set aside. From it stretches the cable of authority that girdles the world; upon it has grown the edifice of all existing government; around it has evolved the whole theory of rewards and punishments, divine and human, from Jehovah's harsh talk to Adam to a month's hard labor for stealing a leg of mutton. Indeed it is this rule which forms the moral (or customary) basis of man's life: by it he lives. It is so lodged in his being that he is almost unconscious of it, and if from time to time he becomes aware of it, it is to regard it as a baleful truth backed by his gods and approved of by his bosses, axiomatic and beyond the need of proof, eternal and inevitable.

Let us translate the Rule more strictly into the language of economics, in the more prosaic terms of goods, money and work. Society says that the only way man can get goods is by working for them. He has to earn them, and at present the only meaning of the word "earn" is "work." When a man works he is rewarded, as we know, with tickets which he can take and exchange for the goods he wants. These tickets, which are claims on goods just as a railway or theatre ticket is a claim on a seat in a train or theatre, we call money. Money is thus the exclusive medium through which goods can be claimed. If for instance you go into the butcher's with an empty purse you will come out with an empty basket, no matter how hungry you may be, for the system says, No money, no meat. But the system also says, No work, no money; for just as money is the only claim on goods, so, under the Rule, work is the only claim on money. A man who works is thus entitled by society to claim money with his work and then go on and claim meat with his money. It is the only recognized way for him to get meat. Were he to steal it, take it that is without working for it, he would be breaking the law and society would take it away from him: even if he received it as a gift, it would only be because somebody else had already worked for it first, and Society would not recognize that he had any previous legal or moral claim to it. The only recognized claim to goods therefore is work, which is only another way of saying, "If a man will not work neither shall he eat."

A good example of the grip in which the Rule still holds us, despite our passing from an age of Scarcity to one of potential Plenty, is the following passage of Bernard Shaw's, for when a piece of orthodoxy commands the knee of an iconoclast of his calibre it must be powerful indeed. "The most important simple fundamental economic truth," he writes, "to impress on a child in complicated civilizations like ours is the truth that whoever consumes goods or service without producing by personal effort the equivalent of what he or she consumes, inflicts on the community precisely the same injury that a thief produces, and would, in any honest state, be treated as a thief, however full his or her pockets might be of money made by other people." Such a statement, written since 1774, is just about as wrong as it could be. Mr. Shaw has omitted the Machine. There is an irony bordering on the comic in these words of Mr. Shaw's, since he prefaces them with this remark: "Here, again, as at so many points, we come

up against the abuse of schools to keep people in ignorance and error, so that they may be incapable of successful revolt against their industrial slavery," and adds: "The suppression of economic knowledge, disastrous as it is, is quite intelligible, its corrupt motive being as clear as the motive of a burglar for concealing his jimmy from a policeman." All of which is perfectly true: and one of the people "kept in ignorance and error" and suffering from "suppression of economic knowledge" is Mr. Shaw. However, he can console himself with the reflection that had he been taught economics at school they would have been those of the pre-Watt era, so that he would only have assimilated a little earlier the Pauline obsoletism which he later picked up for himself.

The Rule Versus the Machine

If the Rule has held its sway unassailed from times immemorial, it has been because it was unassailable, resting as it did upon the too solid fact of Scarcity. Jehovah was right; Saint Paul was right; Society was right; the System was right; everyone was right—until 1774. At which date, Enter the Machine. Now, though born so recently and only now growing up, the Machine has clearly come to stay and is already a power in the world. But so is the Rule. Mankind is thus in the presence of two powers, one within him and the other without, for we may say that the Rule is in our minds while the Machine is in our hands. The grand question now confronting civilization is, Can the Rule and the Machine hit it off? Can, that is, the Rule be obeyed and the Machine worked, simultaneously, without detriment to either? It is a question which civilization, trusting to muddle through, has hitherto declined to face, although it must be clear that the survival of the present civilization depends, in the not far future, upon the joint working of the Machine and the Rule or present economic system.

We must try to find out, therefore, how far the Machine allows the Rule to work and how far vice versa; and we shall be able to do this the better if we bear in mind that neither of them is divinely appointed, the Machine springing from man's wit and the Rule from his necessity, the Book of Genesis notwithstanding.

The Rule Is Being Broken

First, the Rule. We find that it is continually being broken, under pressure of the Machine. Consider for instance such facts as the following. In 1926 Henry Ford reduced the man-work in his factories from ten hours a day to eight and paid his men, not less or even the same, but actually more: in 1926 he introduced the five day week as fast as he could into his various industries, again paying as highly for man-work done in five days as he had previously paid for the man-work done in six; in England the unemployed receive what is commonly known as a dole; for four consecutive years since the war the average number of unemployed was one and a half million, a figure not including uninsured persons; a member

of a co-operative company recovers from it some of the money he has spent within it; sons of the rich, on arriving at their inheritance, need not work at all if they do not care to; and you, gentle reader, do not forget that you periodically receive a welcome piece of paper deriving from that $1000 you invested in such and such concern. These are typical facts of to-day, and if some of them appear to have very little in common with the rest, the dissimilarity is only on the surface: fundamentally they all mean the same thing. They mean that the Rule has been broken. They mean that the people concerned do somehow succeed, Saint Paul notwithstanding, in getting something—no, not for nothing, but without having worked for it themselves. For Mr. Ford is saying: "Here is the sixth day's pay. The work it represents has been duly done, but by the Machine and not by you. Nonetheless take the dollars, the tickets." Similarly with the dole, the chief condition of its receipt is that it should represent no work on the part of the recipient: let him work and it ceases. Again, if I recover a penny from the pound I spend at a cooperative store I have not worked for that penny. If I have earned it, it has not been by work, but by virtue of being a member of the human race in the twentieth century. What has given me my 'unearned' income is my organized association with other men. Again, a cigarette maker will have to work to become a tobacco King, but his son will not be compelled to do any work at all in return for the thousands he spends on the Riviera. He will be able to live prosperously on the work so largely done for him by the

Machine, two specimens of which, the cigar making machine and the cigarette wrapping machine, can do, as we saw in the last chapter, thirty-eight times the work possible before their introduction. And you, lastly, though you may have worked for the $1000 you invested, do no work for the $50 accruing to you yearly from it. Yet you too earn it, though not by work. You earn it simply by your association with other men who are running some part of the Machine.

In none of these instances is the payment received earned by man-work. By what bountiful dispensation then are we enabled to put these payments into our pockets and bank accounts? Is manna dropping from the clouds? No, but it is pouring from the Machine. For the dole, the dividend, the sixth day's pay, and the rest, veritably come from the Machine and represent bits of its virtue and efficiency and life. Indeed such monies, unworked for by man, are a measure of the work of the Machine; they measure machine-work just as accurately as Saturday's pay envelope measures a week's man-work. It is quite true that there can be and should be no goods, and therefore no money, unless the work necessary to bring goods into being has been properly done, and yet we seem able to get at least some of the goods without doing the corresponding work. There is no contradiction here however, for though we ourselves are excused the work it is nonetheless done; what we should have had to do before 1774 the Machine is now doing for us, increasingly. It is as though man had spent all his days in some Hall of Work and ex-

pected to continue in like manner to the grave, when suddenly there appeared at the bench beside him a quite unhuman highly developed Robot, who said to him: "Good news! You need only look in for a few minutes each day now—just to wind me up and give me a drink of oil and look after me generally. I'll do the rest." "What 1" exclaims man of bent back, quite incredulous and, creature of habit that he is, clinging to Saint Paul when in doubt. "Yes indeed 1" answers the Robot, "and what's more, I'll do more in a day than you ever did in a month and do it better too. This is the age of Plenty." If we find fault with the Robot because the world is not yet the rosy place he pictured it, we must remember in extenuation that he never knew Saint Paul. Nor did Saint Paul know him, or foresee that any agency besides human brain and brawn would ever be available to do part of man's work. If only he had been inspired to say, "if neither man-work nor machine-work be done, man shall not eat," what a haven of happy prosperity the world might have sailed into by now! But alas, since the Rule stipulated that man must work if he wishes to eat, he accordingly pretends to want to remain at his bench in the Hall of Works; and goes on pretending even when it becomes painfully clear that there is nothing for an ever increasing number of men to do when they get there except twiddle their thumbs or hinder the Robot. No matter: there he must strive to stand as he stood before and for as long—for fashion's sake and auld lang syne—and thank his stars for any crumbs of work falling from the Robot's bench, crumbs now mostly

unappetizing and monotonous; standardized crumbs. The natural and healthy longing for a better, fuller, decenter life, and the

Machine's capacity which has at last brought this longing within the bounds of realization are two facts which the orthodox never take the trouble to connect together, for the simple reason that they either don't mention them at all or else gloss them over as subjects not quite nice for conversation. And these, the two hopefulest facts of our civilization, are treated thus because they indicate a breaking of the Rule, and so are prejudged to be beyond the established moral orthodox pale. Man is a slave to his menial bench because he is a slave to his obsolete Rule. In this year of machinery, and plenty, there is no excuse for either of these slaveries, and once freed from the Rule's fetters man would find himself largely freed from the bench's.

And the Machine Is Being Perverted

Now let us look at the matter from the Machine's point of view rather than the Rule's.

To a large extent we answered this question in the last chapter when we saw that under present circumstances, in its "collaboration" with the Rule, that is, the Machine worked at a degree of inefficiency varying from 45 to 95 per cent. This inefficiency is due to a variety of causes, all of which will come under our survey in due course. At the moment it is enough to say that all of them—the insufficiency of the money available to buy production, the refusal to use improved processes and labor-saving devices and the

consequent discouragement to science, sabotage in general and the rest—all have their roots in the workings of the Rule. Accordingly we must dig a little deeper in that direction.

Since at present the only recognized and reputable way to get goods is by work, it follows that the logical conclusion of the present system, as someone has pointed out, is digging holes and filling them up again. For men have to work quite apart from the need or desirability of the particular work they do, and quite apart from the fact that, where the work is found to be necessary, the Machine can generally do it much better than they. If an assurance of goods suddenly enabled them to stop working the chief result would be a greater efficiency on the part of the Machine, tor it would then be rid of workers who, compared to itself, possessed a pitifully low productive capacity. Moreover not only are men forced to try and prevent the Machine from working, they actually use it as an agency for making work for themselves, thus perverting its true beneficent function which is to diminish man-work. For only so can men be reasonably sure of sitting down honorably to a meal. Poor Machine! We must not be surprised if the efforts to twist the Machine so unnaturally from its proper sphere do not meet with complete success, for to make work for men is hardly in its line! And yet it is happening every day. A simple instance occurred in Canada late in 1926. The Union protecting the interests of the tram drivers and conductors in Montreal strenuously objected to the introduction of a new type of tram. It was a tram expressly designed so that one man could do the work of two, the driver also acting as the conductor. The protest took the form that such an arrangement was unsafe; a protest rendered quite invalid by the fact that Toronto has been running just such trams in perfect safety for years under what is probably the best tram system in the world. Obviously, moreover, the question of safety is primarily one not for the men but for the company and the public to consider. No, the real protest was against a labor-saving device that would liberate from daily drudgery fifty per cent. of Montreal's tram-car operatives. It is the same everywhere. In the theatre, for instance, there are cases where so little scenery is used that it can be set, struck and packed by a couple of men, and yet the manager (probably losing money) is forced by the trade union concerned to engage and retain a stage crew of definite minimum personnel, nine-tenths of whom are permanently superfluous. In the light of such facts we can now see why through their trades unions and in other ways men strive to create and then cling to jobs that are either unnecessary or can be made unnecessary by some improvement in the Machine. Digging holes and filling them up again was not such a fanciful idea after all. It is no use blaming the unions for their illogicality in declining to allow their members to be freed from drudgery and toil: illogical they are, but they have no option, being forced into that position by the system which is itself illogical in the first place. It is thus that the Rule works, putting spoke after spoke into the Machine's wheels.

But the matter is more complicated than this because in one sense the Machine is glad to provide men with work, and actually aids and abets its own perversion. For the Machine has two things to consider, not only how it can best produce goods but also how it can best get rid of them when produced. It is from the latter aspect, which involves the problem of consumption, that the Machine likes as many men as possible to be working for it and even doing work it could do better itself. From that standpoint it likes them to have work because if they have work they get money and if they have money they can claim goods, and disposing of its products is the Machine's chief object. For if goods are not claimed they remain with the Machine and stick in its throat, so that it chokes, slows down and shows all the symptoms of the disease called overproduction. We get another angle on the matter if we look at it in terms of money instead of goods. Since all the money in the consumer's possession comes in the first place from the Machine in the form of salaries, wages and dividends, it follows that an increase in Machine-work (with its consequent lessening of man-work) results in a relative decrease in the amount of salaries, wages and dividends distributed. There is less money, that is, to buy the Machine's product. And incidentally, since more Machine-work would result in a greater volume of production, we reach a situation in which there would be more goods and less money to absorb them with. Result, acute attack of over-production. It is to avoid such an attack, then,

that the Machine is not averse to letting as many men as possible do work for it which it could do far more efficiently itself, for only so can it avoid ultimate death by glut. The 45 to 95 per cent. inefficiency is thus quite deliberate, and under the present system must be so, since its elimination would bring on at once a probably fatal attack of overproduction, more goods being produced, less men employed, less money available, and less goods claimed. The Machine's views on man-work therefore, unlike the Rule's, have nothing moral about them, but are based solely on economic considerations, and man-work it regards simply as a mechanism for the distribution of money so that its product can be claimed.

The Machine, in fact, is being pulled in two directions at once. On the one hand it tells man that it needs him as a worker less and less, and on the other, no sooner has it sent him packing on a holiday than it finds it needs him as a consumer with money in his pocket more and more. "I don't need your work; run away and play," says the Machine. "But you need my money," says Man. "I do," says the Machine. "Well, I can't get any unless I work," says Man. "Work, then," says the Machine. "But your constant improvement leaves less and less work for me to do," says Man. "But this is horrible," says the Machine, "I'll improve as little as possible." "But it is your job to improve," says Man, "so that I can be freer and freer." "Can't have it both ways," says the Machine. "Agreed," says Man. "Hell!" say both and then probably somebody goes on strike.

Which Shall We Choose?

Clearly the Rule and the Machine between them are not making a very happy home for Man. So far from hitting it off, things look as if they were working up for a rumpus. In other words the partnership between the Rule and the Machine is not one of collaboration but antagonism, and as such the sooner it is dissolved the better it will be for Man, whose affairs, after all, they were instituted to ease and look after. We have seen how the Machine breaks the Rule and the Rule hampers and perverts the Machine. The Rule suffers, the Machine suffers, while Man suffers all the time. Which is it to be, then, the Rule or the Machine? Both it cannot be, without friction as at present and disaster in the distance. Nor can there be any compromise between them for, diametrically opposed by nature, each pulls powerfully in a different direction. We have to choose between them. Fortunately the choice is not difficult. In the first place no one seriously suggests scrapping the world's Machine: it probably couldn't be scrapped without the most disastrous consequences to our civilization, for by now it has become one of the rock-bottom foundations of modern life. In the second place, with the passing of Real Scarcity the Rule has no longer any basis in fact and has lost the necessity which alone justified it, while the Machine, so far from lacking basis in fact, rests upon an army of solid ones that grow more powerful day by day. Between a harsh tyranny rendered obsolete by changed circumstances and the liberating sway of a

beneficent wonder, the very child of man's brain and fancy, it is not hard to choose, and when men realize that the choice has to be made there can be little doubt that the Ayes for the Machine will have it overwhelmingly. The minority will probably consist partly of a few reactionary dreamers who think they would like to revert to the Middle Ages chiefly one suspects because they never lived in them—and partly of the spiritual descendants of the Reverend Townsend mentioned in the first chapter, the number of whom it would be easy, no doubt, to underestimate.

To choose the Machine does not of course mean for a moment either that man must not work or will not work. That would be absurd indeed, for men will continue to work if for no other reason than that they are dynamic and not static creatures. But there is more than one kind of work, and other work than that forced on one by the vision of starvation. What such a choice does mean is that man-work will no longer be considered the only honorable way of claiming goods. "Work and Live" will supersede "Work to Live." If anyone thinks that the choice has already been cast in favor of the Machine let him ask himself what the general attitude towards the dole, say, is, for that attitude—a deploring condemning one—is the measure of our continued belief in the Rule.

Our job then is to clear the ground for the Machine, and the first step is to shift our economic thought until it coincides with the changed economic conditions, to drive out the prejudices born of Real

Scarcity by analyzing the facts of this age of potential plenty, for only by mental rebirth can we dethrone the Rule that is no longer Golden.

Orthodoxy Plays Canute

Your dividends, reader, and mine, and the dole, and the five-day week, etc., are facts, typical symptoms of conditions to-day, and the point is that they are not lessening or even stationary, but growing and spreading. Thus Mr. Ford did not bother to argue in 1926 whether there would come a further reduction in man-work. He took that for granted, and the only question for him was which should be shortened next, the week or the day. Thus the tendency is to break the Rule increasingly. Now this state of things, as we should expect, is highly unacceptable to orthodoxy of every kind, including orthodox economics, which still seek to live by the Rule, presumably imagining the world to be still in a state of Real Scarcity. Knowing in its heart however that it cannot stem the tide that is slowly creeping over its feet, it goes one better than Canute of old, trying to ignore the water until it is actually swirling round its ankles; then, feeling the inconvenience and indignity of wet feet and helplessness, it takes to deploring and cursing it. But neither lamentations nor curses will stop the tide rising.

The mixture of futility and blatancy with which orthodoxy faces the situation is extraordinary and would be brave if it were not blind. As it is it reminds one of the slapdash backchat of the nursery.

For example anyone disagreeing with Mr. Ford thought he could successfully dispose of him merely by calling him a crank. Then, realizing that this kind of mud stuck less and less as Ford proved more and more right, he substitutes Wizard for Crank, as if that disposed of the matter, and eventually the whole world gapes in thoughtless wonder at the man who has been successful and—wizardry indeed!—successful without the continued help of financiers. Incidentally, this being the kind of wizardry Finance dislikes in others and usually reserves for itself, we may be quite sure that Ford is privately frowned on by Finance as severely as was the German magnate Hugo Stinnes, and it is curious to note that these two, Stinnes and Ford, the two big men who were least enmeshed in the web of international Finance, were the two who made public dissenting gestures in the War, Ford with his futile boat and Stinnes by banging his fist on the tables of the Peace Conference and telling the folk there what he thought of them.

Another example of puerility is that common phrase "the idle rich." It should be fairly clear that in its ordinary sense, as a catchword of hate, that is, put into the mouths of the overworked poor for their tongues to relish and roll on, the phrase is quite meaningless, since under the present system the poor ought to be vastly grateful that the idle rich remain both idle and rich. May they grow idler and richer, is the poor man's logical prayer. For consider—if the rich become poor they would need to work. But already there is not enough man-work to go round. The

number of one-time rich would therefore swell and compete in an already overstocked market of man-work while the poor man's precarious job would become proportionately more precarious. Secondly, it should be realized that the idle rich, so long as they spend their money on consumable goods, help to keep industry's wheels turning and the poor man in his job. Thirdly, it should be realized that it is the active rich and not the idle whom mankind has to fear and obey and whom it would do well to watch.

And the dole. This word carries with it a stigma and a sting, and it is meant to. It would be interesting to know whence in its present economic application the word originated. There has been a lack of sportsmanship somewhere, to say the least. For it is one thing to sponsor a system and then, finding it breaking down in certain respects, to compensate those who through no fault of their own suffer from the breakdown: and quite another to insult them gratuitously while you compensate them. Yet that is what England is doing, for in effect she is saying to the employed: "My man, here's money which you must take and spend because I won't have you starving. It must tide you over till I can get my wheels working again." Whereupon you would think it not unnatural for them to shake hands and congratulate each other on the fact that such a makeshift was possible. Not a bit of it. What happens is that England gives the man the money with one hand and smacks his face with the other, telling him he ought to be ashamed to take it. I am much mistaken if that is not the popular conception of the dole. Ap-

parently it matters not at all whether the dole upon analysis is found to be inevitable, proper or permanent: it is enough that it transgresses the Pauline edict for it to be regarded with general disfavor. The question of the dole's morality, in fact, is decided by prejudices dating from the pre-Watt ages and no attention is paid to the undisputed facts of to-day which have caused the dole. The fact, for instance, that it was not sad or evil things that brought the dole into being, but that it was on the contrary the inventive genius of mankind working through the world's most brilliant scientific brains, and the fact that the fundamental nature of the dole is a dividend of unearned income made possible and paid out in virtue of man's colossal inheritance of communal and potential wealth, these facts are resolutely ignored. We prefer to welter in prejudice. We like to stand up in Parliament and say "Deplorable" weightily. Of course it is much easier to do this than to do a little hard thinking. Yet these considerations surely should make us ponder whether it be not time to reconsider the conditions upon which we will suffer man to live honorably in an age—so different from any other—of potential superfluity. But no! The last thing we do on earth willingly is to change our opinions and, diehards all, we glower beneath bushy eyebrows at the dole and say to it: "We are told that you have come in the inevitable wake of man's most wonderful achievements, and we are also told you've come to stay, but we don't like you and we refuse to recognize you as either noble, inevitable or permanent—oh yes we know you *are* all three but don't in-

terrupt—because to recognize these qualities in you we should have to revise our opinions about what Saint Paul wrote nearly 2,000 years ago. So, without more words, you're a . . . you're a DOLE, and by Jove we'll larn you to be one." With this much dignity we do at least make it clear that we are harboring what we consider an unwelcome guest.

As a last example of the nursery's inconsequent repartee it would be hard to beat Dean Inge. For concentration of thoughtlessness, prejudice and obsolete economics turn to his excellent book, *England*. He writes: "The real obstacles are . . . the unfitness of our degenerate population at home, and their reluctance to emigrate while a grateful country provides them with the means of leading a parasitic existence, battening on the rates and taxes." Hip! Hip!—St. Paul, Real Scarcity, Eden's Curse, Harder Work, Longer Hours, Diehards, Fear for the Future, and Man-Work Only for ever!—Hurrah! At the present time only about one man in ten thousand will refrain from joining in the general cheers greeting the feudal Dean's remarks. But this does not mean that the other 9,999 are especially cruel and puritanical or in love with drudgery for its own sake: it only means that they are human beings unversed in either kind of economics, the obsolete as well as the new.

Leaving nursery tactics behind and trying to interpret these matters as intelligently and truly as possible, we should say that just as a rebate of a penny in the pound accrues to members of a co-operative store, so a rebate of which the dole is an instance also

justly accrues to members, all members, of that wider fraternity, modern civilization: the term by which civilization's rebate is known being "unearned increment." This rebate accrues merely through the gathering together of men for a common purpose, the idea of gain being implicit in the organized association of intelligent human beings. And since the thing around which men associate is the

Machine the rebate accruing is the fruit of the Machine. Unearned increment, in fact, is man's reward for having invented the Machine, and it may be defined as the un-man-worked-for share of goods made possible by the man-made Machine.

* * *

To sum up, a duel is in progress between two incompatibles. On the one hand sits the Rule, in all the dignity of an age-long reign, mummified but still powerful, and not much less reverenced for being a little frayed; and on the other the Machine, vigorous, young, growing, carrying with it a reward for man its creator and promising progressive liberation from enforced drudgery. Our money is on the latter.

CHAPTER FOUR

LEISURE AND WORK

We can hardly leave the matter there, however, for the thread of Leisure is left loose and dangling, and it is a thread so foreign to us and so big that many foresee nothing in it but a noose in which mankind will gladly put its weary head and come to a bad end. Leisure and Work are a pair that will bear close scrutiny, for of the former we know little or nothing while of the latter we have only one conception.

The Habit of Leisure

To deal with the question of leisure first, let us beware of our vocabulary as well as of our prejudices and realize that leisure is not to be confused with idleness. There is a great if subtle difference between the two, leisure being the opposite of work whilst idleness is the opposite of overwork. Of course leisure, like any other good thing, can be misspent and abused, but that in no way detracts from its intrinsic goodness, the right remedy for a good thing misused being to change its misuse into right use, not to place a taboo on it. Thus if I have a dollar and get drunk on it the right remedy is not to forbid me another dollar but to let me learn by experience how

to spend money decently. Incidentally I shall probably only get drunk if I am unaccustomed to dollars while if, on the other hand, I am continually finding dollars in my pocket it is more than probable, assuming I'm a normal fellow, that I will soon tire of drinking them away and will put them to some more sensible use. If I am such a sot that I don't, the sky won't fall—in a few years I and the exceptions like me, however numerous, will be dead and buried; indeed, the sooner the better.

When we are told therefore that people should not be given leisure because they don't know how to spend it, we are putting the cart before the horse. We might as well say that children should be forbidden to take lessons in bicycle riding because they don't know how to ride a bicycle. Also we are giving the human species a bad mark it doesn't deserve. The right view is surely that man doesn't know how to spend leisure because he has none to speak of to practice on, the little he has being spent in mere recuperation of tissues from an excess of monotonous drudgery: and the right remedy is to give him more leisure, if that is possible, and encourage him to get used to the feel of it. At present he is a child at it, and if at first he seems eager to pull it to bits we must not on that account deem him incorrigible or incapable of better behavior: he is doing it in sheer zest at possessing a new toy and wants to see what it is made of. When a youth is entrusted with his first latchkey and celebrates the event by coming home one "night" the following morning, a sensible parent will not take the key away from the lad but let him

keep it to learn its proper use; only a foolish father with no confidence in his son believing that a single oat, however wild, is qualification for a night bird doomed to paint the town red for the rest of his days. Yet to-day the latchkey is withheld from man on the assumption that he will stay out all night every night. And beneath this assumption lies the deeper one, forlorn and hopeless, that man is essentially wicked and goes trailing the shameful fetters of Eden's curse wherever he goes and must therefore be continually prevented and circumvented lest he fall into mischief. A reasonable decent belief in human nature prefers the alternative assumption that man is essentially good and improving, and that given the chance he will gradually learn to use every good thing, however dangerous, including even leisure, for his benefit.

It is largely a matter of habit. In America for example there are no fences as a rule round private houses, their gardens being open to the sidewalks of the roads, yet it is the rare exception for a householder to find his turf trampled on or his bulbs dug up or his flowers picked. Yet in any old country where the instinct for private property is deeply rooted and Trespassers Will Be Prosecuted covers the land, implicit where not written, such a state of affairs would be considered risky in the extreme, and asking for trouble from providence and street arabs. Then again, in many places there are newspaper stands without newspaper sellers and pillar boxes on top of which you place your package if it is too big for the slot. It would be quite easy to take a news-

paper without paying for it or to make off with a package, but strangely enough these things don't happen. And since there is no reason to suppose that the New World is more honest than the Old, the bulbs and parcels must lie immune and the papers be paid for because the people there have become accustomed to their being exposed in that manner. In other words, though not more honest than others these people happen to have acquired particular habits of honesty. So with mankind in general; having reached the stage of potential absolute plenty, it now has the chance of acquiring the particular habits of leisure.

I have a friend whose conception of heaven is to roll on the ground with brown bears. The fun of this occupation apart, it is fairly clear that his celestial aspirations were due to the fact that he had never rolled with brown bears on Earth and was never likely to. For heaven is a place where we hope to do all the things we have wanted to do but have not done in this life. Hence the popular conception of heaven as a perpetual holiday, a conception made utterly banal by the meaning we attach to a holiday. For these have always been so scarce that we regard them as occasions to be celebrated: and celebrate them we do, with a will, hilariously, meaninglessly, filling them with the froth of tremendous activity, and doing in them nothing whatever worth while.

If however holidays were more frequent, or if, better still, it somehow came to pass that there was an appreciable piece of holiday every day, our conception of holidays—and heaven—would quickly alter, and instead of being periods so rare that they must

needs be celebrated with flags, drinks, excursions, broken heads, exhaustion and the rest, they would come to be looked upon as quite normal things, and as such would be devoted to some congenial occupation which the doer did because he liked it and not because he was compelled to do it for bread. In fact, man would astonish himself. He would find himself working voluntarily and gladly during his daily holiday hours or his weekly holiday days or in whatever form he found it best to claim his leisure. For if we grant the coming of leisure upon Earth any other way of spending it can hardly end in anything but universal boredom. Mankind would quickly tire of misspending his increasing leisure in sheer idleness, and having tired, he would respond to the instinct which lies eager though perhaps deep in every human being worth the name, the call to satisfy his creative and spiritual faculties, an instinct called nowadays "self-expression." Besides, man's very nature is to be up and doing. He is a mechanism in which blood circulates, nerves carry messages, a brain issues commands, and muscles move limbs. This is a picture of inherent activity, and it is not only grotesque and libellous to suppose that such a being will gravitate into a dullard's idleness naturally, but it is bad dynamics as well. If some people choose to spend the greater part of their leisure in inactivity or vicious pursuits let them! They will soon be safely underground. And though their like may reappear generation after generation we need not be discouraged: it is not they who compose humanity's main stream, or form the material through which the life-force works

its purpose, nor is it upon their muddy tributary that the latter speeds man slowly down the future with his sails spread wide with hope. And even if man does feel like spending a period in a state of unnatural idleness, what of it? It will only be because he has spent so many centuries in a state of unnatural work. We need not fear permanency for such idleness: congenial activity tastes sweeter and does not cloy. Indeed existing data, necessarily as scarce as leisure itself, support this view. Henry Ford, for example, observing what use his employees made of the leisure they received when their day was reduced from ten hours to eight, found that while some drank it away others took on extra jobs, and so many took to building houses for themselves (holy symptom of the lust for freedom) that it became worth his business while to establish lumber yards and supply them with wood from his own forests.

Too often we use words whose meanings have become distorted through some long and too particular association. Such a word is work—work whose commonest epithet is "hard." Coming down to us encrusted with the idea of drudgery, and immemorially associated with the pitiless struggle for existence, it has come to mean almost exclusively something that keeps the wolf from the door, so that to-day work and a "living" are practically interchangeable terms. Thus the word work at once conjures up a picture of something vague, the only clear features of it being

the grim, hard, long, relentless, compulsory, disagreeable ones. It is this kind of work that is rewarded by definite and previously bargained-for payment, and it has to be rewarded in this manner because otherwise men would not do it, it is so disagreeable. The incentive to do it at all is not its achievement but the payment for it. "We can perhaps define the popular conception of work, then, as man-work which is paid for at established rates—piece rates, time rates, so much per foot, per hour, per column, per term and so on. Practically all the work done "for a living" is of this kind and this kind alone the economic system caters for. It has no use for instance for the work of a man who, let us say, spends his life in trying to establish connection with Mars or devotes himself to studying early Norman manners. Indeed such people are often so neglected that society, when at last it can no longer shut its eyes to the fact that noble work has at least been attempted, for very shame supports the tail end of their lives out of some charitable fund which is usually so small that the sense of shame is redoubled rather than allayed. Again, how would Saint Paul have explained His Master's non-adherence to the Rule? Christ ate, but did He work? In the orthodox sense He did none beyond a little carpentry in His youth. "Was He therefore in economic honor bound to subsist for the rest of His life on the goods He could claim with His few pieces of carpentry? If we cared to press the matter further we should find that the only economic work He did after assuming His mantle was to produce some gallons of wine and enough bread and fishes to feed a

multitude of people, and against these goods must be set the destruction of a fig tree and a herd of swine. Yet no one dreams of accusing Christ of idleness merely because He deserted His carpenter's bench and worked neither for payment or a living.

Clearly there are other kinds of work. But being congenial and not disagreeable, voluntarily assumed and not arbitrarily imposed by the fear of hunger, they are not known by that worn name. Instead we call them hobbies, recreations, pursuits. And so unaccustomed are we to this kind of work that when men embark on it with zest and a fixed aim we often call them mad and say they have a mania, whereas in reality they are simply people who have sufficient leisure to enable them to devote all their time to a single piece of work and to do it from their own angle in their own way. It is important, too, to realize that the work put into a hobby is likely to excel that put into a regular paid job of the daily round and common task order in every way, and to be more intelligent and painstaking and thorough, since a man's hobby is something for which he has natural love and aptitude. At present of course such work is rare: with his nose always close to the grindstone, the amount of work done by man in leisure and for love and not for a living has been infinitesimal. Indeed it has been so little that the economic system has taken no notice of it, nor catered for it, quite failing to see that it is bound to increase, since obviously the only rational consequence of a decreasing amount of self-expressive work is an increasing amount of self-expressive work done in leisure. And that is perhaps

the simplest way of putting the matter--that, as far as man work is concerned, work in the near future will be less and less for self-preservation and more and more for self-expression, the Machine taking care of the former increasingly while the latter only man can do. Yet the system, always hand in glove with the Rule, indeed identical with it, has nothing to say on the subject. Recognizing neither the opportunity at hand for taking this gigantic step from drudgery towards freedom, nor admitting its desirability even, it does nothing to encourage or prepare, and refuses to adapt itself. One cannot but suspect such a system, one which casually assumes that the only result of a decrease in man-work will be vicious idleness, must be bankrupt of sap.

It is perhaps clear now that work is something not necessarily done only in factory hours or on an office stool or in term time; that it is a greater thing than these; that these represent only one kind of work, a part of a whole, necessary work but nothing more, mere subsistence work for man's food, clothes, and shelter, and his other material needs and wants; in short, man's menialities; and that the bulk of man's work lies beyond and above these earthy things, waiting to be done, vast and hitherto as untouched as a sea sighted but not sailed. That is the interesting work: work that will in time raise man to the Godhead he is one with. Is it not possible to picture this world of ours, surely small enough to be easily managed to our best advantage by our wills, in the very near future-we could make a start to-morrow-and see a place in which man, having harnessed natural

energy and made a Machine that helps him beyond his wildest dreams, could arrange for the menialities, the dull routine work of keeping himself in material plenty, to be done as easily and as quickly and semi-automatically as a millionaire's wife keeps herself in gloves; and the large leisure now accruing to man increasingly and only waiting to be claimed by him as a legacy turned to fine account in creative work and spiritual adventure?

The Present Stage of Our Evolution

According to biologists some of the earliest forms of life devoted most of their energies to equipping themselves with a satisfactory breathing apparatus. With them breathing was apparently a difficult uncertain matter; perhaps it was like life itself, something of a gamble. Be that as it may, the strivings of these tiny things went on sturdily, and on and on, for we don't know how many centuries or ages. Eventually however their efforts were rewarded in the *nth* generation and the art of breathing was at last acquired and the apparatus perfected. The lucky organism reaping this reward consequently became free to devote its energy to other matters, no longer having to trouble about the breathing business. Not that breathing became a thing of the past: it was of course just as essential as ever, but it was now accomplished without any conscious effort or bother. The organism had inherited from its brave determined ancestors a breathing apparatus which worked so well as to be semi-automatic, and it was in virtue of this splendid inheritance, and this alone, that it was able to turn its attention to higher things, conquer other fields and generally develop. We may say that the menialities of these earliest days consisted of the business of breathing properly.

A great step forward though this conquest of breathing was, it did not represent the organism's final development nor the summit of its ambitions. The breather did not rest on its lungs, as it were, thinking they were laurels; for like all living things it was dynamic. Accordingly it took further steps and duly conquered other fields. It developed, in short, by slow, intermergent stages. One stage would consist of the long effort to grow a thumb, and stand on two legs in order to use it freely. No doubt these feats took a long time, but once accomplished the human animal was able to forget all about them and the struggle they had meant, and was free to tackle more complicated affairs and satisfy higher ambitions. Again, though a great step it was not the last: laurels were not yet. And as it was with breathing so it was with thumbs. That is to say, we do not spend ten minutes before breakfast every morning practising the upright stance or go about congratulating one another on having thumbs, although we still use our thumbs and still stand on two legs. We still work to grow the one and stand on the other but what was once laborious is now so easy that we do it without thinking, and the stupidest child performs the labors of an aeon before it leaves the womb. So we very properly take our thumbs for granted, and if we thought about them at all we would realize that they

too, like our lungs, were the wonderful inheritance of centuries of ancestral effort. Simply and solely in virtue of that successful effort, that colossal work, man became free to turn his energies elsewhere on some higher plane.

A further stage was when man increased so in numbers that he found he could depend less and less upon the more fortuitous ways of getting food and life's other necessities—such ways varying from prayers for rain to warring for plunder—and it became necessary for him to tame and cultivate the earth and organize the production of goods so that he should be supplied as methodically as possible with the things he needed. This work, in its turn, lasted a very long time and as long as it lasted it took up the vast bulk of man's time. We can call this stage of man's career the Stage of Supply; and it is this stage which, thanks to the advent of the Machine, has now at long last reached its end. Once again, a great step, but is it the last one? There are no grounds for thinking so. Only our vanity and small vision prompt us to, it being natural perhaps for people who fail to see themselves as the cosmic specks they truly are to think the world will come to an end near their day, the apex of existence having been reached. For instance it is quite possible to imagine, that the first thumb, as it were, so impressed its owner that he felt the summum bonum had been achieved and there was nothing for him to do except sit down and twiddle it pending the last trump. He would have been wrong however, what he in vanity supposed was the ladder's top being but a rung or two up it. Moreover the perfection of mere material supply is scarcely a fitting end to man's story; there is nothing particularly elevating or spiritual about it. It is necessary of course, this work of material supply. No one questions that: we must have things. But that it is essentially menial is undeniable. Which goes a long way towards explaining why tinned bean kings and toothbrush magnates try to forget beans and toothbrushes as soon as they have made enough money out of them. They seem a little reluctant to admit a share in supplying the world with what are after all two very estimable commodities. It is even quite on the cards that a soap king, if he is enough of a soap king, will buy a title for the more satisfaction of changing his name from the one he uses on every other soap box. It may also explain why people engaged in the production or distribution of any commodity never seem anxious to reveal their occupation but guard it as some horrid secret, so that when asked they one and all answer that they are "in business." To inquire further is considered hardly decent. And even those of us of the mere consumer world are not a little contemptuous of this great business of material supply eternally all around us, and when we are asked who the So and Sos are living at the Manor and we answer that they made their money in gum, we are not meaning to compliment the So and Sos.

If only for the sake of pride in humanity's destiny we must assume the presence of other fields to be conquered, and it is at least reasonable that there should be work of some kind to succeed the work of supply, just as the latter succeeded the work of growing

thumbs and the work of growing thumbs succeeded that of breathing. Now, whatever this new work is, it can only be done if the present work of supply is relegated to the background of man's attention and made to keep company there with the work of growing thumbs and breathing. That is to say, it must be done with little effort and in little time, and with such perfection of method that the whole mechanism of production, distribution and consumption will function semi-automatically, so that man, bent on other pursuits, will not have to bother his head unduly about it. That the time has now come when we can safely relegate the mechanism of supply to this subordinate position the Machine's capacity proves; and with it we can, if only we use it aright, make an end of the long menial stage of supply. Only by doing so can we be sure that progress is a step forward and not a precarious pirouette.

Just as we have seen that the proper way to regard those wonderful things, our lungs and our thumbs, is as beneficial parts of man's common inheritance, so we can regard the Machine, a thing no less wonderful. This conception of the Machine as man's inheritance is of the greatest importance, for upon it depend the justice or morality of the new thought that is being poured into the science of political economy, as new wine into old bottles. It cannot be stressed too often, therefore, that the Machine is no sudden miracle descended on man out of the blue, but that it is on the contrary an inheritance, definite, logical, deliberate, and ours. It is not a gift, there is no Aladdin's lamp: it is the result of effort, effort made by

man, and is the fruit of work, of man-work. And in as far as we are men; in as far as we are members of the same genus as Euclid, Galileo, Newton, Watt and Faraday; in as far as we belong, that is, to Homo Sapiens and not, let us say, to the Lepidoptera, in thus far the corporate effort resulting in the Machine is our effort, yours and mine. That the effort is corporate and not individual, and that the Machine as a whole is claimable by the community as a whole, becomes clear after a moment's thought. Take a railway engine: to whom does it fundamentally belong? To the driver, the stoker, the passengers, the shareholders, the directors of the company? By no means, for none of these people invented the steam engine. Yet all of them are essential for a train to run. Watt, too, is disqualified, for being dead he can't own it, and if his descendants laid a wild claim to it they would be silenced by the fact that neither Watt nor they bored through the Rocky mountains and laid the C. P. R. or sewed the buttons on the upholstery in the Brighton express. The matter is seen clearly in the case of an invention like the "tanks," to which so many people contributed that it was found impossible to make any individual reward with any justice. Again, who invented radio? The only true answer is, Man. The truth is, the Machine is a trinity, three in one and indissoluble, composed of invention, development and use. The inventor invents and soon passes from the scene; then, succeeding generations develop the invention out of all recognition, adapting it to a thousand complicated uses; while the community as a whole supports these multiple activities

and makes them worth while by using them. Each of the three parts being essential, the ownership of such a trinity is clearly resident not in anyone of them or in any individual or set of individuals but in the community as a whole. (By the way, no plea is being insinuated here for nationalization. Perish such a thought utterly! The present theme delves far below what is merely an alternative method of administering the Machine.) To resume, it is man as a species who has evolved, suffered, toiled, thought, invented, and harnessed natural energy—man has done this, not snakes, or bears or troglodytes—and if success has at last come of age-long corporate effort, he is entitled to a corresponding reward, and therefore we of today are morally entitled to claim a proportionate share of it. A reward accrues to us for being human beings alive in this year of grace, and accruing, it should be in such a form that it can be realized in hard cash as it were by each individual before the journey which slips so quickly away between cradle and grave is over. We have inherited economic security and material plenty as truly as we have inherited good lungs, thumbs and an upright stance: we reap the benefit of our earlier successful strivings: shall we not reap also the benefit of our latest conquest? Bare justice answers "Yes."

One reason for stressing the fact that the Machine is due to the work of man as a whole is that we can thereby confute the people who say airily that we never can and never ought to get anything for nothing, and having said so think that they have disposed of one for good. We confute them by agreeing with

them. Emphatically man will never get the Machine's benefits for nothing for the very good reason that he has worked for them unceasingly by creating the Machine. The resulting benefits are therefore a reward for this work, proportionate to it, and not a pampering gift. From this standpoint we can look orthodox theology square in the eye and say that if man as a whole must inherit Adam's curse and suffer from it, how much more shall he be entitled to inherit his own inventions and all the benefits they could bring.

Theology cannot have it both ways. To be saddled with inherited punishment but deprived of inherited blessings is an idea calculated to stick even in gorges accustomed to swallow full-sized dogmas. Man must feel able to claim his inheritance of economic plenty with as least as much justice and persistence as that with which orthodox authority loves to stuff original sin down his long-suffering throat.

Beyond the Menialities

Let us assume then, firstly, that we approve of the principle by which the Machine will increasingly lift the burden of menialities from man's shoulders, and secondly, that we can find a scheme embodying this principle and can put it into practice,—what is the nature of the higher work waiting to absorb our lengthing leisure? It is difficult to say, for here we enter the unknown. Of course if there be no work beyond the menialities we shall be in a plight indeed and Satan will doubtless find suitable mischief for

our idle hands. Run to fat, our civilization will perish ungracefully dreaming of a heaven where everybody works the clock round. But few of us believe this to be our fate, and those who do are probably glad to scrap such pessimism in practice and substitute something brighter for their working hypothesis. As we have seen already, there is no evidence that man's story will be consummated with the attainment of material supply, or that human ambition will be sated when every bedroom has a bathroom attached. That kind of thing is not the final glory. There lies ahead for instance the work of learning how to live, a work so rarely performed that we talk about not the work, but the art of living. Only the few have the leisure to practise it for man as a whole has been too busy fighting Real Scarcity. But now that he has at last won security man has the chance to go on and learn to live more fully. An unsatisfactory phrase, this; but what the full life is and what the precise nature of the work before us, we can only vaguely imagine, feeling our way hopefully. Even so, what visions dimly unfold themselves when we approach the unconquered provinces of Knowledge and the Spirit. In those realms there surely lies work, and work enough, subtle, tantalizing, hard, adventurous. This is the next act of the drama, and since the curtain has only just fallen on the Struggle for Existence, it behoves us to change the scenery and set the stage briskly and carefully so that the new act may be played without hitch. In other words, we should see to it that we have an economic system sub-

servient to existing conditions, and not one that lords it over them with a supreme disregard for adolescent facts.

As for our present store of knowledge, though it is true that we know more than man has ever known before and can do things never dreamed possible, are we any wiser, any happier for all our wonders? The fruit of knowledge is not skyscrapers or record flights, but a certain outlook on life that brings happiness to its possessor and bravery to withstand fortune's wry flings. Only so, at least, can one defend that smattering tribulation called a classical education; according to which view a gnarled illiterate old rustic may be wiser than a professor, though he writes no books, happier than a magnate, though that would not be difficult, and sweeter with faith than a churchman, though it is composed mostly of superstitions. In any case our boasting reflects a very comparative state of affairs; especially if we pause to ponder humbly the fate of man's other civilizations lying in successive layers under the world's Saharas. Poor Yorick! No, instead of boasting we would do better to realize that even to-day we are only on the threshold of knowledge. If we know a quantity of things, we know them only in a rule of thumb way; that if one does so and so the result will be so and so. I turn the switch of my reading lamp but no man knows what electricity is; there are waves in the air, and we tinker with them till New York hears London calling, but no man knows what they are; Canute knew of the tides but neither he nor anyone since him knows why they are. We use matter and its forces but we remain

ignorant of what it is we are using. Thus we go from one darkness to another so that the proverbial child with its succession of Whys will ultimately bring the most learned to their knees in ignorance on any subject. We don't know who or what or why we are; in fact, we know nothing at all, and the occasional appearance of Truth's little finger over the side of her well should not so excite us that we delude ourselves into thinking, and boasting, that we have paid the lady a visit in the well's uttermost depth, for the thoughts of the wisest are very little more than pertinent questions.

In man's spiritual world—if indeed the spiritual can be separated from the material—with what stumbling we tread! Of God we proclaim our ignorance almost spectacularly by calling Him, or It, the Unknown. As for Theology, Christianity, Islam, Theosophy, Psychology, Nirvana and the rest, what are they but words long enough to wrangle about and wide enough to grope in dimly after the unknown?

It is the same with our creative faculties, which strive to build beauty and are the handmaids of the soul. When has man time to develop and nourish these, or the time even to desire to develop and nourish them? To-day the exception, beauty is so rare that its creators, the artists, different from their fellows, are looked on as a kind of harmless lunatic by a world which, as a whole, has never experienced beauty. Man in the bulk being otherwise busily engaged, works of art are shut away in museums to keep awed company with mummies. Or, if available for individual pleasure, they fetch fantastic prices and

so almost invariably come into the possession of the people who can appreciate them least, since the only people able to pay the price are as a rule those who have been busiest in the world of supply. And since such people appreciate beauty in terms of money, exclusive art rings are formed and Old Masters come into the market as though they were so many stud bulls or bushels of wheat. The stories of rich men who order books by the yard to fill their libraries are true stories; and the tale of the man who sued the railway company for delivering his Venus de Milo armless, and won his suit, becomes perfectly credible in a world that deals in a commodity of which it know nothing. But notwithstanding, beauty remains the province of the few happy lunatics, for though the others are sufficiently ashamed of their insensibility not to admit it, they are not sufficiently ashamed of it to want to remove it.

We have scarcely begun. Breathing: thumbs: material supply: knowledge: beauty: happiness: supermankind: Godhead. From protoplasm to Godhead is the road, and it is not unreasonable to suppose that the insistent urge to evolve is moving man slowly along it. If so, the thing clearest at the moment is that he has gone but a fraction of the way.

PART II

THE PRESENT SYSTEM

"Who holds the balance of the world? Who reigns
O'er congress, whether royalist or liberal?
Who rouse the shirtless patriots of Spain?
(That make old Europe's journals squeak and gibber all)
Who keep the world, both old and new, in pain
Or pleasure? Who makes politics run glibber all?
The shade Buonaparte's noble daring?
Jew Rothschild, and his fellow-Christian, Baring."
BYRON

CHAPTER FIVE

THE OBJECT OF INDUSTRY

The fields man has ploughed, the cities he has built: his plantations of rubber and cotton, his blast furnaces, his shipbuilding yards and fishing fleets, his railways, his ranches, his mines, his farms and factories, his Black Countries, his offices—these and their like are what we mean by Industry. What is the meaning of it all? Why does a man plough and sow; or bore into the earth like a rabbit; or go trawling and be tossed about at night on a black sea; or pour molten steel into giant shapes; or rise at dawn to milk the placid cow; or spend the long days in strange comfortless buildings continually doing This or regularly doing That to the tune of a humming and a clangor, while outside the factory chimneys billow their dark breath into the silent skies; or sit in an office guiding these activities and adventurously planning further ones? There is only one answer. Men do these things to try and satisfy human needs and desires. That is all. And could there be a better reason, a nobler objective? Man works because he wants. He sows because he wants whatever he knows he is going to reap; he digs and bores because he wants whatever it is he knows he is going to uncover, whether it be water, diamonds, potatoes or coal; he fishes because he wants the fish, and milks because he wants the milk; he puts up with factory life because he wants the factory's fruit; he fashions grotesque steel giants called Intermediate Products because he wants, not them, but their offspring the Ultimate Products, that pour by the thousand from their tireless loins. Men, that is to say, want things which they can use or consume in the place where all ultimate products find their true goal and last rest—at home. Indeed Industry is as homely a thing as home, and resolves itself finally into a personal matter concerning the individual, or as he is called in economics, the Consumer. What each man wants to have in his home around him, be it a palace or a hovel, and thinks he would like to eat or drink or wear or sit on or look at or use or peruse or play with or puzzle over or work at—these needs and desires are the reason for work and the cause of Industry, its sole basis, its only justification: and the object of Industry is to satisfy them. Any other explanation of Industry turns human activities into a nightmare in which man has lost his way and grown a devil's tail, which, puppy-like, he is for ever trying to catch.

It is hard to believe that any quarrel could be found with Industry's object being defined as The Supply of Goods to Satisfy Wants—it seems so obvious. But the economic air is teeming with germs of prejudice and fallacy, and having fed for generations on the pap of public opinion we are all of us susceptible to infection. To look at the matter afresh, therefore, and rid our minds of twentieth century preconceptions, let us try to see Industry through the eyes, say,

of intelligent Martians just alighted on Earth. . . . They behold the people of Earth working: the farmer in the field, the artisan at his bench, the clerk at his desk, the manager in his office, the artist in his studio, the scientist in his laboratory. An impressive sight. There is nothing ephemeral about it. Man's labors are not lightly undertaken, easily shifted, or quickly performed: rather, universal and always present, they affect the whole course of a man's life and bulk preponderantly throughout his liveliest years. The Martians watch with interest the eager intensity, the strain, the competition, the punctuality, the anxiety, the efficiency. All the inhabitants of Earth are up betimes, and proceed, busy as ants, to do the maximum amount of work considered consistent with moderate health; stopping in the middle of the day for rest and sustenance that they may work the better during the second half of the day: and at the end of it back to the recuperating depot known as home, snatching a measure of pale recreation on the way perhaps, and finally falling into a sleep that winds up the mechanism afresh. They see men employing in this fashion the best part of every six days and ceasing only when the virtue has gone out of them; day after day, week after week, month after month, year after year. Moved by so tense a spectacle, the Martians ask, "For what object, pray, are the people of Earth working so industriously?" and as we have seen, a sane society would answer, "To get the things they want,"—an answer which cannot but satisfy the Martians. Indeed, any other answer, or even any qualification of this one, would make them

pucker their brows in surprise. Clear, however, as the azure through which they have just flown though the answer may be to them, it is not necessarily so clear to the myopic inhabitants of Earth: as we shall see.

The supply of goods to satisfy wants is not Industry's chief or primary object, for it is its *only* object. No subsidiary reason for work exists, and there are no secondary objects for Industry to aim at. What do exist, however, are almost numberless things which are nothing more nor less than *effects* of work and *results* of Industry: which is by no means the same thing as calling them objectives. Thus when a man works he may sharpen his mind or harden his muscle, or both; but it was not with the object of sharpening his mind or hardening his muscle that he embarked upon his job. He embarked upon it to make something for someone, himself or another, who wanted it, and these other things were incidentally added unto him. Sometimes it happens that these incidentals are the reverse of keen minds and strong bodies, and a man finds Industry saddling him with a dull mind and a puny chest, or even with a positive injury such as lead poisoning, a state of affairs obviously not aimed at. Thus there are effects beneficial and effects harmful, and the former cannot be considered as objectives of Industry any more than the latter. These considerations are neither by the way nor unimportant, for one of our major troubles to-day is the result of a growing tendency to regard as a positive objective of Industry what is in reality only one of these incidental effects, or by-products. We refer to "employment."

The Prostitution of Industry to Employment

To-day Industry is used to make work as well as goods, and the provision of employment has become one of its main objects. The Martians' brows are raised in astonishment and knitted in perplexity, and well they may be at so tragic an absurdity. For this conception of Industry is a heresy which could pass unchallenged only in a system which was itself one big heresy, since where the whole is heresy each part manages to pass as true because it fits in so neatly with its adjacent though equally heretical fellows. It is a heresy which is none the less publicly subscribed to by responsible men. There could hardly be clearer evidence of this than a speech by Dr. C. H. Northcote of Messrs. Rowntree and Company delivered at a British Industrial Conference at Balliol College, Oxford. "One of the most pathetic aspects of industrial organization to-day," he said, "is the inability of well-directed factories to find employment. One of the hardest tasks before anyone seeking to justify our industrial organization is to explain why factories so well equipped and so well run are unable to find employment for men and women who are willing to be employed." (While one knows of no one able to perform the task of justification, Dr. Northcote can perform the task of explanation himself if he considers for a moment the Rule and the Machine and the tug-of-war between them in which the Machine is gradually winning.) In like vein spoke the First Lord of the British Admiralty in 1926 when he said, "Nobody dislikes putting dockyards out of action

more than I do, but there can be no economy without putting somebody out of employment." And so the note is struck all along the line.

Thus to deny that one of Industry's main objects at present is the making of work is to deny existing facts. Consider for instance the coal industry in Britain. From the welter of Royal Commissions and trouble during the past decade one of the few facts that emerged upon which there was complete agreement was the acknowledgment of the enormous superfluity of men engaged in the industry. The figure runs into scores of thousands, and according to the Report of the Coal Commission there were about 100,000 unemployed miners before the stoppage in 1926 took place. It comes to this, then: that these men are forced by the present system—by the Rule—to continue to raise coal in spite of the fact that all the coal needed could be raised without them. These men are no fonder of coal than anyone else, but they continue to perform the dangerous operation of raising it because at present that is one of the ways of getting money tickets. What, on the other hand, never emerged at all from all the talks and fights was the basic fact that the object of the coal industry is to raise the amount of coal required for all purposes, with minimum of effort and man-work, and to distribute it when and where and as it is required. This being so, if a time came when men found it possible and preferable to use, say, oil or electricity instead of coal in certain quantities and for certain purposes, a valid reason was at once established for raising less coal, and the closing of the less productive pits or

the introduction of short time in all the pits would consequently become a sensible, deliberate, voluntary, welcome act. In a sane society the miners might be pictured as sighing with relief, and saying: "Well, *that's* over!" as they emerged from their final shift into the upper air and proceeded to wash the grime off. But, as we well know, any miner who said this would be on his way to the asylum. The closing of a pit or the introduction of short time is never a voluntary act or a welcome one: and if deliberate, it is embarked on only after the "due deliberation" that always precedes a reluctant decision: and if sensible, it is only sensible in the circumstances. The closing of a pit, whether it be due to a lockout or a strike or to competition or even to simple exhaustion, is always regarded as a tragedy; and the tragedy exists quite irrespective of the coal, which mayor may not be wanted, and consists therefore not so much in the deprivation of coal as in the loss of employment. In short it is not untrue to say that the mining industry is conducted, not with the view to raising the gradually decreasing amount of coal required, so much as keeping a constant number of miners employed, all of whom are nothing more or less than human sacrifices on the wanton altar of our god the Rule.

And so throughout Industry generally. We have seen already how the inventor is discouraged, not on account of his invention, intrinsically a boon, but because its application would displace men from work. The case, previously described, of the one-manned tramcar in Montreal is a clear example and typical of

what is going on all the time. Improved industrial processes are either not made use of at all or else introduced reluctantly and amid opposition from the very people who, were they not compelled to live Through the Looking Glass, would be most pleased; namely, the people whom the improvements relieve or, in the inverted speech used Through the Looking Glass, deprive of some lowly brand of menial work. The reluctance and the opposition come, of course, from the bitter knowledge that as things are now arranged unemployment is a tragic state, and since the tragedy is only just round the corner for all of us, society seeks to avert it and keep it at least round the corner. And it does this by using Industry as a means to provide men with work, not recking the cost to Industry nor realizing the superfluity of the workers as workers if only it can save the situation without recasting its economic tenets.

In practice men prefer slavery to starvation; or if objection be taken to the realism of these terms, we can change them without changing their meaning, and say that men prefer employment to leisure. Now, it is precisely because Industry provides the slavery and so averts what is under a mad system the tragedy of leisure that this truculent cuckoo, Employment, not only passes itself off as legitimate but is commonly considered beautiful. Enveloped in a saintly aroma, and weeping apparently out of sheer consideration, it positively exudes humaneness. "To provide employment" sounds admirable, and the phrase goes current everywhere as a piece of practical Christianity with a hint of the muscular brand thrown in;

whereas if we look beyond the phrase's piety into its reality we shall find lurking there one of the stupidest perversions of the simple and obvious ever borne by man, and he has borne many. For, cant aside, let us recognize that work, as such, carries no morality or virtue with it. Men, for instance, pack cereals day after day not because it is good for them but because they want cereals or their equivalent to eat. And this is true notwithstanding that the patience demanded by the process may be good for them just as the monotony involved may be bad, the goodness and the badness arising being incidental to the work of packing, not its reason. Similarly, a farmer does not farm because it is good for him or bad. He farms because he and others want farm products. The open air may benefit his health, the rural surroundings minister to his peace of soul and the exercise make him brawny, but then, too, continued proximity to cows may make him mentally bovine. Nor does a man report punctually to perform daily a vast number of repetitive operations because there is virtue or morality in their punctuality or the operations, but because the goods resulting are in demand; remove the demand and the operations cease. Or again, Candida would never have taken Marchbanks off to peel onions because it was good for him, however much the process *was* good for him, unless she had wanted onions for supper. And Marchbanks' objection to Candida filling the lamps, that it would soil her fingers, was an aesthetic, not a moral one; he well knew that she was filling them because the house had to be lit, and not with any heroic idea of steeling

her finer sensibilities against the pungency of paraffin. Far from having anything to do with morality or virtue, work is merely the means by which man supplies his wants. This, the satisfaction of his wants, is the great thing, and in so far as work ministers to it, work is justified. But beyond this function there is no true cause for work. Work for work's sake, especially when as now most work consists of menialities, has no justification, moral or otherwise. Work is a means, not an end.

Let us reduce the matter to its simplest terms. Picture a unit of life, say a man, living on a unit of matter, say a tropical island, and suppose that man to have no other desire in the world beyond a plentiful supply of oranges. While his lack of other wants will make him out a dull and dirty creature, the simplicity of his one want in no way invalidates the argument; and to live in complete happiness, as he conceives it, all he would have to do would be to pick oranges, eat them, and plant orange trees against the future. Though simple, that would be all. During his long spare time he would do what he found best alleviated his ghastly boredom, and the point is that no Being or force or system or tradition would compel him to expend a certain number of his units of energy in irrelevant and probably unpleasant ways before he allowed himself to pick an orange. If, that is to say, he can get all he wants with a minimum of trouble, let him; he is under no moral obligation to devise and carry out a trouble system which deliberately turns that minimum into a maximum merely for the sake of fulfilling the Book of Genesis.

It is the widespread and permanent presence of curiosities such as the Montreal trams and the tears shed over a record cotton crop that baffles visitors from Mars; but, then, they are not acquainted with the trouble system which makes work an end in itself.

The Prostitution of Industry to the Will to Power

There is another way in which industry suffers prostitution, and is led astray from its natural function of producing the healthy child, Supply. Its seducers comprise all those who pursue power for its own sake and whom, guilty innocents, we may call instruments of the Will to Power. They are guilty innocents because, while it is the ambitious quality of their nature that causes the trouble, yet none of us is in a position to quarrel with it, since, latent or rampant, it exists in each one of us. Indeed, some schools of psychology, notably that represented by Dr. Adler, maintain that the will to power is man's deepest instinct, more profound even than those of self-preservation and reproduction; the former of these being, according to them, an instinct not so much to preserve ourselves, as to preserve ourselves in order to exercise power, and the latter an urge to perpetuate ourselves in order to carry forward our power to the next page of life's ledger, or, if we have none to carry forward, in the hope that our children will achieve power, succeeding where we failed. These schools find their text in Nietzsche, where he writes: "Psychologists should bethink themselves before putting down the instinct of self-preservation as the cardinal instinct of

an organic being. A living being seeks above all to *discharge* its strength—life itself is Will to Power; self-preservation is only one of the indirect or most frequent results thereof." A vast force, we need not, as far as this book is concerned, bother our heads about what will to power is, so long as we are very clear about the fact that it exists, and exists universally and enormously and always. Perhaps the master and cause of all man's major desires, it is force not the less powerful for our being largely subconscious of it.

These considerations carry especial weight in economics because it is in Finance that the fattest prizes for the will to power very temptingly reside. Accordingly it is there that the most dominant men, the men who really rule the world, are to be found. That the hand that rocks the cradle rules it is a cherished sentiment, but a revised version of the old proverb would more likely read, The hand that holds the credit rules the world. So busy is this hand that even when it takes a rare holiday it is a mock one.

"Neither Mr. Strong nor Mr. Norman will discuss their presence here (Antibes, France). . . . The widely varying reports of the activities of the financiers published in the French and foreign Press have noticeably annoyed both Mr. Strong and Mr. Norman. Mr. Strong in his efforts to guard himself against correspondents, has turned the historic old Hotel de Cap, once the favorite Riviera resort of European royalty, into a veritable fortress. The hotel has been so upset during the last week that the management has issued strict orders to all employees not to deliver messages of any kind to the two

men. The concierge, trained during the regime of royalty at the hotel, declared that Kings and Princes never received such marked attention."

The above is not an excerpt from a Communist rag: it was published as a matter of unsurprising fact in *The New York Commercial and Financial Chronicle*. As one of the few glimpses vouchsafed the world of the kind of men who run it, the picture is not without a kind of tragic humor: and certainly it is not without interest, for it is such men who make history, or rather, who direct along what course history shall be made.

Ethics for its own sake, mere right and wrong, the will to power doesn't concern itself with. As in love and war, all's fair in Finance if you pull it off, and the will to power feeds on anything and everything that it thinks useful to it and is allowed to use. Expediency and the law are the only brakes on its activity. Indeed, a sound case can be made for regarding the law as an everlasting attempt to curb this force and control it. And the case holds even when it seems to break, when for instance giant individuals or men in masses—Mussolini and the French and Russian Revolutions are typical examples—assert their will to power so successfully that they break the laws without regard and become tyrants. For what happens? The tyrants make new laws, by means of which they consolidate their power and prevent the conquered from disputing it and so asserting *their* will to power. In this way might becomes right: for though perhaps stark wrong ethically, once

it has conquered, all it has to do is to pass a new law solemnly declaring itself right!

The instruments of the will to power are many, varied, and subtle. The ignorance and superstition of peasants and credulous pious folk in the hands of a priest: the defencelessness of a woman before a man: of a woman and a man before a thug's revolver: the submissiveness of a negro before the slavedriver's whip: the stupidity of the multitude beneath the steady rain of slogans poured out by the Press, the white no less than the yellow: and, greatest of all because they affect all, man's need of food, clothing, shelter and his desire for a host of things beyond these necessities. These things, man's ignorance, his defencelessness, his submissiveness, his stupidity, his needs and desires, diverse in themselves, are yet alike in that they are all weaknesses and all exploited by the will to power. Obviously everything depends on the use these weaknesses are put to, on what is at the back of the exploiters' mind. If, for instance, they were used with the object of promoting the welfare of the peasants and the slaves and economic man in general, there would be no grounds for impeachment, however far short the aim fell of the object in practice. But the object is nothing of the sort. Power is an end in itself, exclusively, and the will to it is blind to other considerations except as they assist or impede its own success. The slaveowner is interested in his slaves only in so far as they provide him with labor gratis: if he has sense enough to treat them well and keep them in health it is because in that state they will work better and live longer, and not because he

has their happiness foremost, if at all, at heart. The thug has little interest in his victim once he has lifted his purse off him: often he will emphasize his lack of interest by leaving him senseless. Similarly, Finance is not interested in Industry, as such, or in prosperity, as such, or even money, as such: it is interested in these only in as far as they serve to further and consolidate its power. And while it is generally in the interests of Finance to keep Industry in health, this is not an invariable rule, and the fattest goose does not necessarily lay the biggest golden eggs. There are no grounds for saying that economic prosperity always results from financial prosperity. This lack of relationship between the two explains, among other things, how it is possible in times of acute industrial depression when everyone is going about with long faces, for the banks to show an increased prosperity. For those who like figures the following from *The Bank Officer* (of London) is illuminating:—"In five years of economic stress the book value of the 'Big Five' banks' premises has been increased from £17,343,000 to £24,662,000, and the directors have felt obliged to apply £7,850,000 out of profits to writing the amounts down"; while those who like to observe for themselves may have their eyes opened by counting the number of valuable corner sites occupied by expensively built branches of one or other of the Big Five, and finding out how many of these were built during the depression of 1920-1925. If any relation at all can be said to exist between economic prosperity and financial prosperity it is that they are complementary rather than coincident. It is, in fact, impossible not

to suspect that they actually vary inversely, and that when they go smilingly hand in hand it is in spite of, not because of, each other. This suspicion was summed up by Monsieur Caillaux early in 1926. "Here there is financial disorder, there economic disorder; and it really seems that countries only escape from the one evil to fall into the other. The tug-of-war between financial stability and economic stability seems in fact to be one of the characteristics of this formidable crisis which, unparalleled in its scope and significance, oppresses the world." The facts hardly needed a spokesman, however, they spoke so eloquently for themselves. We saw the nations, America included, turning one by one from a happy economic prosperity coupled with an "imminent national bankruptcy" to a financial stability that dragged millions of unemployed in its train, so that one could spot the nations which were financially "sound" by seeing their manufacturers queueing up for the Bankruptcy Court. We are told, "Oh, but the War—the WAR, you know." And the war is duly smudged across the face of all things as an explanation and excuse; and we are content to leave it at that. Consider then the case of Brazil, far from Flanders. After the war, according to the *Manchester Guardian,* it enjoyed "remarkable industrial prosperity" until 1925, when a financial crisis developed. Brazil was to be made financially sound. Accordingly in that year she balanced her budget and recovered her rate of exchange—and paid for this "soundness" by a "commercial and industrial crisis unparalleled dur-

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ing the past 100 years." Pondering on such amazing things it becomes clear that well stocked larders have nothing to do with the marble pillars or copper doors of banking temples, or comparative happiness with a stable currency. All of which is only another way of saying that Finance's concern for Industry is definitely not that of a mother for her child; since on occasion it can behave like a thug and nearly knock it out; caring nothing for its welfare provided it makes money out of it and thereby increases its power.

Unless power is an end in itself the lives of the most powerful become inexplicable. For what can it be besides power that they aim to reap from their activities? Money? Why, they already have more than they know what to do with: it cannot be that. Yet still they go on. What urges them, the hope of what? Happiness? There is no evidence that the powerful are happier than their less powerful brothers. There is nothing about the Baruchs and Rothschilds of the world to support the idea. On the contrary, though few of us can speak from experience, it appears that great power imposes a severe strain upon a man and saddles him with a burden of anxiety beyond happiness. Thus the first Baron Rothschild is said to have spent his latter days, after he had acquired money and power, in fear of his life and to have slept with a revolver under his pillow, and one suspects there is something applicable to all very rich men in Mr. E. C. Bentley's poem on Mr. Beit, which runs as follows:

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Mr. Alfred Beit
Suddenly screamed in the night.
When they asked him why
He made no reply.

Again, one wonders what the total yearly sum amounts to for guarding very rich people with private detectives. We remember, too, the nursery story of the sick king who could be cured, so it was said, only by wearing a shirt belonging to a happy man. At length, after an exhaustive search throughout the kingdom a happy man was found, but alas! he had no shirt. Not by money or happiness, are the powerful ones goaded on by vanity and a desire for publicity and fame. A hundred times, no. These men shun the ambitions of preachers, actors and statesmen as undesirable and vulgar. Kings and Presidents, Prime Ministers and Duces, bishops and comedians, mere industrialists like Rockefeller, Leverhulme and Ford—these bask in the limelight contentedly, even revelling in it and praying for more, but let it strike the Zaharoffs, Warburgs, Lazards, Kahns or Kuhns, and they step quickly out of its beam, and if it persists in following them, there goes forth a curt order to switch it off. Secrecy appears to be characteristic of the whole genus. We saw how Mr. Montague Norman, Governor of the Bank of England, and Mr. Benjamin Strong, of the Federal Reserve Board, behaved on the Riviera, and according to the *Wall Street Journal* this was not exceptional, for these same two men while in Brussels registered at their hotel in the names of their valets. Then, as I remem-

ber, the name of Bernard M. Baruch is conspicuous for its absence in the memoirs of Colonel House though these purport to be both intimate and full. And who is familiar with the features of, let us say, J. P. Morgan, through seeing them reproduced in the newspapers? No; all things have their place, and the gods work better in the dark, accumulating there rewards more solid than limelight. No longer children, good financiers should be neither seen nor heard; only felt. When the need for definite articulation arises the job is delegated to Governments, whose statesmen set about announcing and explaining the new feature as though it was their own decision and not their masters'; and the most we hear of the latter's hemispherical edicts are echoes in the Press couched in phrases so vague as to suggest some Great Impersonal behind the Veil, such as: "Certain interests are known to be in favor of—," or "There is the very highest authority for stating that—." These phrases are not mere journalese; in 1926 the French Minister of Finance, though responsible to the nation, did not dare to be more definite than in the words "the absence of a certain essential support on which the Government was entitled to count," when what he wanted to say was that Baron Edouard de Rothschild, M. de Wendel and the other thirteen Regents of the Bank of France had thwarted the Government. Incidentally, the directors of the Bank of France are appointed by the Government, and so by the nation, while the fifteen Regents are appointed by the private shareholders, and it is interesting to note, as expected, that the Baron beat the

nation, though probably not so lucratively as his ancestor beat the City of London when he misled it as to the result of the battle of Waterloo, and made a million pounds out of the panic before the news of the victory (which he himself had witnessed) arrived in London. Not money, not happiness, not fame or publicity. What, then—popularity? No; these men's disregard for the public applause follows on their aversion to publicity. Should the fruit of their policy be hailed with joy they are content for their rightful laurels to adorn the brows of statesmen, taking for themselves the less fading meed of an increase in power; if execrated, the excesses of the French Revolution can always be avoided by having it pointed out that the "laws" of economics are "natural," "inevitable," and "inexorable." In this way a Cabinet Minister explained to the people's representatives in the Mother of Parliaments why the postwar education schemes promised at a General Election had been dropped. He said: "The grim goddess of Finance exercised, as she always must, an inexorable power"—and the debate was dropped. Greed, self-indulgence, or general blackguardism? A thousand times, no. The great majority of these men, and this is perhaps the most hopeless fact of the whole matter, with absolute sincerity consider themselves good men and their actions of public benefit. They would not willingly hurt a fly. Altruism? Hardly: they get paid richly in money and power, and they enjoy their self-imposed labors. Service, then—good service duly paid for? Do they go on in the belief that their labors are a rich help to their fellow men?

Maybe they hold this belief, but put them in other jobs, which though useful carry with them no power over the lives of other men, and they would ask to retire at the earliest chance. In this way we can eliminate motive after motive which might be supposed to prompt men who have long passed the need to earn a living, and have achieved immense economic freedom, still to go on wearing their harness with relish. In the end only the lust for power for its own sake remains.

This then is the conclusion we arrive at. Picture Industry as a wood, and at once Finance becomes a shooting party in it, after splendid game—species, Golden Plum; genus, Power. That all are sporting gentlemen bred to the etiquette of house parties and shooting goes without saying. What cannot be said too often however, is that the party is in the wood only to shoot, none caring for the wood, as a wood, none loving its beauties for themselves, none interested in botany or in problems of afforestation: and if they are careful with their cigar butts lest the wood burn, it is because they wish to preserve not the wood but their shoot.

* * *

Thus Industry is suffering from at least two prostitutions at once. It is being misused by society which exploits it for employment, and by Finance which exploits it for power. About the true object of Industry and the role it ought to play there can be as little doubt or argument as about an axiom in Euclid. In-

deed, it is an axiom of true political economy, and as such it may be defined as follows: *The object of Industry is to produce and distribute with the minimum of man-work and machine-work the desired quantity and the desired kind of goods and services as and when and where required.*

CHAPTER SIX

SPOTTING THE FAULTY FACTOR

What then baulks Industry, precisely? Why—since it can—does it not produce sufficient goods; or, if it does produce them why do not the people who want them get them? In a word, where is the snag?

Let us dissect the body politic, choosing England for convenience. Opening her up, we find exactly four relevant factors: Desire to Consume; Machine-Work; Man-Work; and Finance. Let us examine each of these in turn and discover, if we can, in which of them lies the poison that is infecting the whole body.

One, the Desire to Consume. Like other people, the people of England want things: things to eat, things to wear, things to shelter under, things to work with; necessaries and luxuries. The desire for goods in abundance and variety is instinct in every man, woman, and child throughout the land. In terms of economics, potential consumption or Real Demand exists. The first factor, then, is man regarded as an eager consumer, always, like Oliver Twist, asking for more. This is the role he fills every time he strikes for more pay, every time he votes for a higher standard of living, every time he dreams of what he would do if he had a million pounds, every time he eats and

drinks. Real Demand is the root reason for Industry's existence, there being no object in producing and distributing goods and services "as when and where" required if nobody wants them "nohow never nowhere."

Two, Machine-Work. The Machine—oh wearisome reiteration!—*can satisfy* Real Demand—easily. So easily, indeed, that it is always on the point of overflowing with the flood of goods, and very often it does. When this happens, to rescue it from drowning in its own excess, it is stopped down or limited by cartels designed expressly for restriction. Governments forbid more than a certain amount of cotton or rubber, say, to be grown, inventions are frowned upon and shelved lest they should facilitate production any further, and sabotage, become a necessity, is smiled on as a blessed loophole instead of being eliminated as a crime. And all to save us from the awful fate of getting the very things we want!

Three, Man-Work. The Machine has to be worked by men. It needs men to design it, to build it, to administer it, to repair it, to improve it. Are there men available who are fitted to do these various things? Are there?! Question rhetorical if ever there was one! There are so many that there is a continual flow of them out of England into other communities. Yet, despite this exodus, a round million men too many remain to serve the Machine. Laborers skilled and laborers unskilled, foremen, contractors, draughtsmen, engineers, salesmen, accountants, scientists, chemists, inventors—from office boy to chairman they are all there, ready, able, eager. Thus the third factor is man regarded as a producer.

Now *there is nothing whatever wrong with the Desire to Consume, or with the Machine, or with the Men who work it,* no poison in any of these three factors. Quite the reverse, there never were three healthier organs, physically, morally, or ethically. Real Demand, orienting from the primitive instinct of self-preservation and passing beyond it to flower on a higher plane, becomes a noble aspiration to throw off the sufferance of bondage, to live free, and pierce ever further into life's possibilities; the Machine, too, far from being victim to anaemia or paralysis, is the most active and most powerful and most marvelous instrument ever fashioned by man; and as to the men required to work it, they are unsurpassed, England always having led the world or at worst held her own in the conduct of Industry. We have no choice but to return a clean bill of health in respect of all three factors. Looking at them we can say, like God, Behold! they are good. Yet somewhere there must be poison. Something must be rotting the body when we see the people of a green and pleasant land fully able to work a machine which can give them the very things they want, yet being always anxious and often suffering through either an insufficiency or else a total lack of those things. It follows therefore that full marks for factors one, two and three involve bad marks denoting the presence of poison in the fourth factor, Finance: which proof is not the less valuable for being, at the moment, negative and reached by a process of elimination. For suppose you have been poisoned by a glass of whiskey and soda, you are at

liberty to suspect either the whiskey or the soda, or both. If you can assure yourself that the soda is pure, the whiskey alone becomes suspect, and it will remain suspect in spite of contrary advice proffered by the bootlegger who sold it you, however rich and gentlemanly and powerful he may be. But you do not fly into a temper and shoot him; there is a better way. In place of wild words and hasty action, you send the whiskey to be analyzed, and point out the result to the bootlegger, making it quite clear that either he supplies good whiskey in future or you will dispense with his services. It is such an analysis that we propose to conduct.

One would gladly leave the matter at that and get on with the analysis of Finance were it not for the fact that a very common objection is frequently raised at this point which it may be as well to deal with at once. It usually takes the following form: "I don't agree with you. I don't know much about Finance but what *I* think is wrong is the working-man's attitude to-day; he is discontented and won't settle down after the War; he won't work long enough—compare for instance the hours of the British workman and the German—and he's always wanting more money." This kind of stuff generally comes from people of conservative and one might almost say mediaeval mind who could be safely passed over were they not so numerous. One could answer, "But look at Germany," though that would not get us very far beyond the spectacle of her unemployed, whose army rose from 364,000 in November 1925 to over 2,000,000 in February, 1926. A better answer is as follows:

"I'm sorry you don't agree with me because I agree with you—absolutely, for you mentioned *money,* and in doing so touched the exact spot which I myself had diagnosed as the infected place, money being as identical with the financial system as the blood is with the heart. Say no more: you have stated the case for analyzing Finance." Our critic was right in saying that the working-man was discontented: it would be a wonder if he were not. In his circumstances discontent is one of the few brave, hopeful, healthy symptoms for the future, for it means that men are seeking to live and are beginning to realize that whatever their station in life may be they are nevertheless princes in the Universe. Consequently if they want to better themselves the fact should be credited to, and not debited from, the Man-Work factor. In any case, the immediate cause of their discontent is not political but economic. Fundamentally, of course, it is spiritual. Mr. Arthur Brenton has put this matter well: "The dark evil of longer work stirred man like the trumpet of doom. His common-sense was affronted. He rightly though unconsciously surmised that the machine made it unnecessary for him to work longer. The general strike was fundamentally neither a general strike nor revolution: it was a cry to Heaven and man against a system sponsored by industrialists, financiers, governments, and of course themselves, in which such ludicrous conditions could be countenanced for one second." And on the other side of the ocean the President of the Recreation Association of America was thinking the same thing: "What we are witness-

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ing is the revolt of men who see life passing away without their ever having lived, who face the prospect of carrying their ideals and aspirations unfulfilled and unspoken to the grave."

The Function of Finance

Now that it is suspected of harboring poison Finance becomes more interesting than ever, and one is agog to examine it more closely. What is its function in the body politic? Well, it has of course many functions, but the chief one is to act as an instrument or system in bringing Consumption and Production into contact with each other. Factor number one, Desire to Consume, is Consumption, and factors two and three together, Machine-Work plus Man-Work, form Production: and Finance connects the two. So that we may say by way of definition that *Finance is the LINK between Production and Consumption*. An illustration will make the relationship clear. You want a box of matches, so you go into the grocer's, put a penny on the counter, and take a box away. In the transaction the matches are Goods, you represent Consumption, the grocer represents Production, and the penny represents Finance; and the point is that without the penny you would not have got the matches. Production and Consumption would not have met—unless of course you were a thief, but that is a contingency we can disregard since we are considering economic foundations for an ordered society. Now, though we shall be paying most of our attention henceforth to the penny, let us continually bear

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in mind that there is, one, nothing wicked or immoral in your wanting to light your pipe, two, nothing lazy or incompetent about the grocer who has heaps of matches and is only too pleased at letting you have some, and three, nothing wrong with the matches themselves.

* * *

This linking function of Finance is so important that it is well worth while getting into our minds as clear a picture of it as possible. A conception at once graphic and true is that of a bridge spanning a ravine; and let the ravine be wide and deep so that nothing can cross it except by the bridge without courting disaster.

Now, first, a bridge is simply and solely a device by which things can cross the ravine quickly, conveniently, and safely, and the best bridge is the one enabling this to be done with maximum speed, minimum inconvenience, and perfect safety. Once these conditions are satisfied, subsidiary characteristics may be added at will, such as elegance, but the latter must on no account disturb or detract from the former. Second, a bridge is man-made: therefore it can be remade at man's will, or altered to meet fresh traffic conditions. If the traffic grow too heavy, for instance, the remedy is not to forbid admittance to the excess but to strengthen the bridge; if too congested, to widen the bridge. For, third, the only reason for the bridge's existence is the traffic that passes over it, so that all concerned, from roadman to superintendent, must minister primarily to the

traffic's needs. Fourth, the bridge belongs collectively to the people on either side of the ravine, for it is they who need it, and use it, and were the cause of its being built, and who indeed built it collectively generation by generation; and the more they need it and use it the more it is absolutely theirs: and the fact that officials such as policemen and toll-collectors are at work permanently on the bridge does not give them ownership of it. These officials, however important, far from owning the bridge, are there merely to administer it—for the benefit of the true owners. Fifth, it is the business of the people on either side of the ravine to say how they wish the business of the bridge conducted, and the officials' job to find the best way to carry these wishes out. Sixth, the officials should be chosen solely for their expert knowledge of some branch of traffic control, and be appointed by the owners, paid by them, and responsible to them. Seventh, any benefits resulting from the administration of the bridge should naturally return to its real owners. Eighth, and lastly, though a bridge may become a necessity, essentially it is nothing but a convenience.

So much for what a bridge is. Now for what it isn't. A bridge is not built for its own sake: apart from the services of communication it renders to the two sides it is so much useless steel It is not run for the pleasure or profit of the bridge officials. It is not owned by its officials any more than the property on his beat is owned by a policeman. It is not reverenced because it was good enough for people's grandfathers, and preserved untouched like Goethe's house; but altered without compunction until it is good enough for the people using it now. The right to cross it is not conditional upon bowing to statues erected on it to people who are now dead, even though when alive they were in a position to expect this homage. A bridge has no morals and is not "inexorable."

These somewhat fantastic ramifications of the simile are not idle, for we shall find precisely those things happening daily in Finance which were expressly forbidden on the Bridge. First, however, let us identify our material. The two sides of the ravine are of course Production and Consumption; the bridge, Finance; the traffic, Goods; and the unfortunates who try to jump across, sufferers from either stealing or starvation. This completes the picture, but in one respect it needs a note of explanation. Production and Consumption, vast territories with unexplored hinterlands, both claim John Smith as an inhabitant, and when regarded as a citizen of either of these lands he must be regarded as a citizen of both. On leaving England, say, for the realm of economics he divides into two persons, one going to the land of Production and the other, simultaneously, to the land of Consumption. This dual feat is not as queer as it sounds and is due of course to the fact that a farmer, say, not only produces wheat but also consumes ploughshares, and a pill-maker consumes motor-cars and socks and produces pills concurrently: he may even consume his own pills. In other words, all producers are consumers and most consumers are producers. Economically speaking, we

are all hermaphrodite. Far from being abnormal, however, this state is perfectly natural and indeed inevitable, and John Smith is not less real for being bisected: his need of a new suit, his desire for a new gramaphone, will not be the less urgent because it happens that he also assists in producing, let us say, needles or straw hats. So, if we can visualize millions of people in the land of Consumption all thronging towards the bridge with arms outstretched continually and crying, "We Want—," and in the land of Production those very same millions busy working, silent except for some who keep shouting across the ravine "It's all right—we've got the very things you want" (Advertisement), and pouring goods to the bridge head, then we shall have a good idea of the relation between the three great basic factors of economics: Production, Consumption, and Finance.

Now for one or two of the curious and even alarming things that are happening on the particular bridge of Finance. In the first place, it is treated by some as though it had been built for its own sake and was an end in itself—money having itself become a commodity. Then, the bridge officials have not been appointed by the people of Production and Consumption and, not being responsible to them, they can flout their wishes, and if it pays them, hold up the traffic—the Bank of England and its Five Big children being private institutions, responsible to none but their shareholders who in turn are a handful of private corporations and individuals. The result of this irresponsibility is that the officials administer

the bridge for their own thrill and profit, and virtually own it. Then, too, we see that the bridge, originally built for foot-passengers, has only been widened grudgingly to admit the locomotive and the automobile, and then insufficiently—financial changes not being commensurate with the industrial revolution of the nineteenth century. As Mr. V. A. Demant puts it: "The inherent defect in the money system of the modern world is largely due to the fact that statesmen and economists have not revised their financial theories in consequence of the tremendous change which took place with the invention of 'loan credit', a necessary accompaniment of increased productivity made possible by the industrial revolution." Which means that though Finance went as far as to evolve "loan credit"—and something, after all, had to be done in face of the Machine's capacity—it loaned the credit on conditions which, being based on principles in force before 1774, were obsolete. Again, we note that the officials deliberately and even with pride limit the volume of traffic to the width of the bridge, though the latter is adjustable, instead of to the demands coming from Consumption; the amount of money issued by the banks being proportionate to the amount of gold they have in their vaults, and bearing no fixed proportion to the amount of goods (which money after all is supposed to represent) producible and wanted. Once, it is true, the bridge was widened appreciably—during the War. Then, being commandeered and having no choice, the officials carried out the improvement at once and easily. But we can imagine the reluctance with which they

did the job, remembering how they had announced only a moment before with ponderous Delphic authority that the War couldn't possibly last long because the bridge couldn't be widened; bankers and business men, declaring that the War would be over in six months because at the end of that time no combatant nation would have enough money left to carry it on. Howbeit, with the widening of the bridge the traffic poured across as it had never poured before, and everyone in the lands of Production and Consumption prospered, in spite of the fact that the traffic consisted mainly of engines of destruction and not healthy necessaries or pleasurable gewgaws. But the War over, the bridge, with only the barest by-your-leave from the officials, was narrowed once more; the bankers returning the nations to the Gold Standard and conveniently forgetting ever having said anything about the War being over in six months. And then, lest people on the sides of the ravine should think that the bridge, having been widened so easily in war, could be widened as easily in peace, the officials produced a book of traffic rules and regulations laying down that a fine had to be paid for widening the bridge; we are saddled with a national "debt" which our children will continue to pay long after we are gone. When it is pointed out that this fine is now, *pace machina,* an anachronism and that the book was issued under the auspices of the Age of Scarcity, the officials fob off suggestions for revising it by teaching that it embodies natural phenomena and Jovian pranks such as "cycles," which, not being of men's doing, are unre-

visable. To keep this superstition alive, passage across the bridge is conditional upon bobbing to a statue of Saint Paul at one end and to one of the Governor of the Bank of England at the other. The effects of this simple obeisance are incalculable. Among other things it blinds the idolator to the archaic nature of the traffic rules even when these result in criminal disaster, and when things of real value, desired and cried out for by Consumption, are calmly thrown off the bridge to perish in the ravine below. "Tripe cooked slowly in the baker's oven for at least half a day finds a frequent place on every middle class French table. And yet, although the supply is so great that thousands of pounds weight are thrown away daily at the Halles, the price still remains high." So unquestioning was reverence in 1926 and so tenacious the power of tradition!

In a word, not the flow of traffic but the preservation of the bridge *in its present form* is the chief concern of its officials; for, extracting pleasure and power and profit from it they are very naturally endeared to it as it is, and taking no risks, will champion it to the last, believing that no alteration could do anything but lessen what they get out of it. So that when an independent and enlightened economist like Mr. J. M. Keynes writes: "Nowhere do conservative notions consider themselves more in place than in currency; yet nowhere is the need of innovation more urgent"—his words fall on deliberately deaf ears.

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Finance is not *a* link between Production and Consumption: it is the only link. This is why Finance is so important to everyone, to you, to me, and to millionaires alike; and to the man who hasn't got a bean it is probably more important than to anyone else. To summarize, then:—unless my penny passes to the grocer I do not get my matches, and the counter be it only a yard is yet as wide as the Great Divide guarded by flaming swords. I may desire the matches never so much, call for them never so loudly, pray for them never so hard—i.e., my Real Demand may exist—and simultaneously the shop may be so overstocked with matches that the grocer keeps stumbling over them—i.e., he may be suffering from Overproduction—no matter! I shall have to go without my box unless I can back my wish, my cry, my prayer, with a coin—i.e., my Real Demand cannot be satisfied, or even recognized, until I back it with Purchasing Power and so convert it into Effective Demand.

CHAPTER SEVEN

MONEY

So much for the function of Finance. Next, what is it composed of, what is the substance through which it works? The answer is, Money. The financial system lives by means of the circulation of money much as the physiological system lives by the circulation of blood. And to understand anything about Finance we must know something about money.

"Money," Professor Walker says, "is any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product." If this definition seems very comprehensive let us remember that so is money. But there are less academic ways of defining money. For instance, there is the saying that money is the root of all evil. Fortunately we cannot accept this as a definition because it is untrue; not money, but the misuse of it or the lack of it being the root of much evil. Rather, don't all of us agree feelingly with Manon Lescaut's lover, who on being chided for continually seeking money, replied: "Yes, my dear friend, I feel

like you, that one should despise worldly wealth, but I also feel that one should have enough of it to be able to despise the rest." So far from being the root of all evil, money is the most important thing in the world, its possession being a condition of the happy existence of all the virtues. As Shaw rightly points out: "The universal regard for money is the one hopeful fact in our civilization, the one sound spot in our social conscience. Money represents health, strength, honor, generosity and beauty as conspicuously and undeniably as the want of it represents illness, weakness, disgrace, meanness and ugliness. Not the least of its virtues is that it destroys base people as certainly as it fortifies and dignifies noble people. It is only when it is cheapened to worthlessness for some, and made impossibly dear to others, that it becomes a curse. In short, it is a curse only in such foolish social conditions that life itself is a curse. For the two things are inseparable: money is the counter that enables life to be distributed socially: it *is* life as truly as sovereigns and bank notes are money." The counter that enables life, the wealth of life, to be distributed socially—a good definition. But let us be quite clear in our minds that money is not wealth. It only represents wealth. Money without goods and services profits no man and, conversely, there are no symptoms of wealth or life about a man who declines to convert his money into goods and services. It would take more than a coroner to decide that a miser found dead of malnutrition in a bare garret with ten thousand pounds in a stocking died a pauper.

In terms of economics money may be defined as a "claim on goods" or "purchasing power." But perhaps the best of all is the definition of money as Tickets. Tickets or counters—money is nothing more and nothing less than these, and the tickets may be any tickets, made of any substance, so long as they fulfill Professor Walker's definition. The conception of money as tickets need not surprise us since we are familiar with other kinds of tickets, railway tickets, pawn tickets, theatre tickets. Money tickets differ from these only in one respect: namely, whereas a railway ticket is only acceptable in exchange for a railway journey, a pawn ticket for the object pawned and a theatre ticket for a theatre seat, a money ticket is exchangeable for a railway journey or a theatre seat or any of the thousand other goods and services offering themselves. Money tickets enable their holder to take his choice. Other kinds of tickets don't, and so may be regarded as money tickets limited to one thing. A cloakroom ticket is very limited indeed since it will claim not even a hat, but only your hat. All tickets are claims on goods of some kind, and money, no exception, is a ticket which can claim goods of any kind.

From the point of view of the financial system these tickets do two things. First they inform Production of the number of things Consumption can claim with them, acting as an index of Effective, though not Real Demand—the things the Consumer can afford, that is, not all the things he really wants—upon which Production proceeds to satisfy this Effective Demand by producing goods. Secondly,

the goods being produced, the tickets pass hither and thither in the land of Consumption and effect their exchange until everyone has as much as he can afford of the kind of goods he wants. In other words one function of money tickets is to indicate the number of goods to be produced, the other to distribute them. These functions are quite distinct from each other.

What Money Is Made of

We of to-day are in the habit of associating money tickets directly or indirectly with gold. This is only because we live at the tail end of an age which happened to choose gold preeminently to fashion its tickets out of. In many ways, apart from the objection that there is too little of it, gold was an admirable choice: it is pretty, hard, portable, it wears well, and no one is likely to dig up handfuls of it in his backyard. While these are commendable qualities it may be said at once that its intrinsic value as a rare yellow metal, used by goldsmiths and dentists, has nothing to do with the question of its suitability for making tickets, as we shall see when later we find so intrinsically worthless a substance as paper performing, as money, all the jobs done by gold, and a few additional ones. Nor has gold always held the reverent favor we incline to give it nowadays.

Many substances besides gold have been used as money at one time and another, while preceding them all was barter. An example of this cumbersome way of distributing goods is found among the native tribes of Australia. There we learn that "the tough green-

stone valuable for making hatchets is carried hundreds of miles by natives who receive from other tribes in return the prized products of their districts, such as red ochre to paint their bodies with." Obviously barter could not survive the least complication of society's wants and the more convenient and elastic method of money developed. Naturally the forms of money depend largely upon the pursuits of the people using them. Thus in the hunting age skins seem to be the chief form of money: they have been found among the Indians of Alaska performing this service. As the pastoral succeeds the hunting age the animal itself becomes the principal form of currency. In classical Rome, for instance, and through Italy in general, ten sheep were reckoned as being equivalent to one ox. The word pecuniary is derived from the Latin pecunia which in turn is derived from pecus, meaning a head of cattle. In a passage of the

"Iliad" the value of two different sets of armor is estimated in terms of oxen. More recently, cattle rents were paid by the pastoral Indian tribes to the United States Government, while oxen form the principal circulating medium among the Zulus and Kaffirs. On passing from the pastoral to the agricultural age the number of objects used as money increases. Among them may be numbered corn, maize, olive oil, coco-nuts and tea. Tobacco was adopted as legal tender by the English Colonists in North America, while to-day people looking for diamonds up the Amazon pay their negro staffs in cigarettes. Among the Indians of British Columbia Naiqua shells are money, a string of them being

reckoned worth one beaver's skin. Cowries in India, whale's teeth in the Fijis, red feathers in some South Sea islands, salt in Abyssinia and Mexico, lead in Burma, iron spikes in Central Africa, are as truly money as a sovereign in England. But none of these mediums is wholly satisfactory and for various reasons this currency and that has fallen out of favor. Thus we can imagine the delay in settling accounts at the parting of Abraham and Lot with cattle insisting on meandering from the credit pen to the debit, while in modern times silver was demonetized as a result of discovering huge deposits of it in Mexico and elsewhere. Dealing with the present Western civilization money made of gold or other metals brings us down to the seventeenth century, at which time paper began to be used extensively. The evolution of this medium is so bound up with the Banks that perhaps the simplest way to trace it is to outline how a typical banking institution has evolved.

Paper Money and the Bank of England

The Bank of England was founded in 1694. It came into existence for the purpose of lending William III £1,200,000 at eight per cent. It was then, as it is now, a private institution. Its full title is The Governor and Company of the Bank of England.

The Bank's original modus operandi was not novel; it merely followed precedent. Its precedent in general was of course usury, at that time practiced by the London goldsmiths. Composed of Lombardy Jews, after whom incidentally Lombard Street, Lon-

don, is called, and the like, these men were the bankers of the day, and it was with extreme disfavor that they viewed the new Bank. True, it did not propose to "lend out money gratis" but nonetheless it was hated as Antonio was hated by Shylock because its terms were not rascally, and the goldsmiths' were. The particular precedent which the new Bank followed was afforded by its forerunner, the famous Bank of Amsterdam. This bank made a specialty of handing its customers a "note" in exchange for their cash, and this practice may be said to have started a revolution in banking methods. The customers after paying the bank a commission for their trouble, were then at liberty to use these notes in trading if they could find anyone to accept them. They found that everyone was delighted to accept them. Complying therefore with Professor Walker's definition the notes became money. Conversely, the bank guaranteed to deliver cash whenever a client should present the notes at its counter. But these were so convenient to deal in "on the Rialto" that the bank was not often called upon to fulfill this obligation, and in practice merchants tended to deposit gold and bring away notes rather than to present notes and ask for gold. One day the Bank of Amsterdam went smash: its cellars were examined and it was found that most of their supposed contents had long before been gradually loaned to the Dutch East India Company and sunk in the Dutch Colonies beyond recall. And that was that. There is nothing unique, however, about going smash, and the Bank of Amsterdam is memorable not for its catastrophe but because it was the

first bank to issue paper money on a large scale against the gold it received.

The Bank of England went far beyond this simple business of a paper quid pro a gold quo. The new departure consisted in issuing notes up to the amount owed to the Bank by the Government, a privilege accorded the Bank by a Government grateful for various services continually rendered. The Bank, that is, was empowered to issue additional money, to increase the absolute amount of it in circulation. In other words, the Bank of England made money—literally. Thus if the Bank had ten pounds of gold in its vaults and lent five of them to the Government it could make a five pound note and put it in circulation, so that the total amount of money was then fifteen pounds, the Government using five, the Bank circulating five, and keeping the remaining five in its cellar. Or, again, suppose the Bank lent the Government all of its ten pounds it could print ten new pounds making a total of twenty pounds, all of which money moreover would be in active circulation. And that is where the difference lies between the privilege of the Bank of England and the device of the Bank of Amsterdam. For in the case of the latter, although 100 notes, say, were printed for every 100 gold pounds in the vault, the amount of money was not doubled by the process of printing the notes, because never more than 100 pounds, whether paper or gold, could be in circulation, and it is only when it is in circulation and active that money is truly money. When lying dormant in a vault it fulfills none of the functions of money, and should be regarded as secur-

ity or precious metal or backing for money, rather than money itself. The 100 notes in question merely represent, are substitutes for, 100 gold pounds, and not additions to them. The interchange between the 100 notes and the 100 pieces of gold may go on for ever but only 100 pounds will ever be available as purchasing power. Under the privilege of the Bank of England, however, we saw that ten pounds can give rise to a total of twenty active pieces of purchasing power, all of them in circulation at once. Ten of them we know came from the Bank which possessed them originally and were lent to the Government. Where did the other ten come from? The answer is, also from the Bank. The Bank made them. Obviously this privilege of the Bank is of vast importance and marks the beginning of an epoch in Finance. And we are still in that epoch, for to this day the Bank issues notes to the amount of money owed it by the State, terming such issues "fiduciary." In other words, the Bank of England still *makes money*.

This however is only the beginning of Bank notes and the capacity of the Bank to create new money. Hitherto we have seen that the maximum amount which the Bank's ten pounds could be expanded to by means of a fiduciary issue was twenty. By adopting the principle of the "reserve," however, it was found that the ten pounds could with reasonable care be expanded into a sum far exceeding twenty. The "reserve" principle, practiced by the goldsmiths and all bankers since, is not difficult to grasp. It is based on the assumption that people depositing gold in a

bank will leave it there preferring to handle in their business the convenient notes issued by the bank instead; and that, although the bank guarantees to pay gold on demand it is extremely unlikely that many people will make this demand simultaneously. It becomes a bank's business, therefore, to determine the maximum amount of gold which is likely to be asked for at anyone time, and, adding an ample margin for safety, to fix that amount as a fraction of the total money it proposes to issue. Thus, if a bank finds in practice that of the 100 notes it has issued against the 100 gold pounds in its vaults, never more than twenty are presented at anyone time with a demand for gold, the banker will be in a position to say "So. . . . In practice I find I only use twenty hundredths or one-fifth of the gold I possess, and could carry on my present volume of business in perfect safety if I held no more than twenty gold pounds. My other eighty are at present idle, which is foolish. I can bring them into play and increase my business by regarding them as four further lots of twenty and creating for each lot an additional hundred pounds, for if twenty gold pounds will support or carry a hundred pounds, as I find is the case, then my total hundred gold pounds will support or carry five hundred pounds. In other words I can quite safely issue five times as much money as the gold I possess." And this is precisely what a bank does. It builds an inverted pyramid of money resting on an apex of gold. It is of course to a bank's interest to make the amount of money it creates as great as is consistent with safety, for it trades in the money it creates by loaning it;

and it is by loans that all banks make the bulk of their profit—a fact still ungrasped by many innocent folk who continue to regard a bank merely as a safe for their money and savings. In actual fact, the amount of money created on the "reserve" principle is far more than five times the gold money which "backs" it and which constitutes the "reserve." None-the-less the principle works admirably—until "something happens." With that something we are all familiar and have all heard of runs on banks. What happens then is that more people than the bank had calculated present themselves at its counters and demand gold, and sufficient gold not being forthcoming, the bank goes smash and the "reserve" principle goes smash for the time being, too. A good example occurred in July, 1914, when it was found that the banks could not pay ten per cent. of their liabilities in gold and were only saved from catastrophe by closing their doors and summoning the Government's help.

We see, then, that the Bank of England used, and still uses, a paper to manufacture the money it creates by the two systems, the "fiduciary" and the "reserve." Incidentally the paper it uses comes from Laverstoke in Hampshire, where it is made from fine linen and becomes imbued with the peculiar qualities of the water flowing through the works. Early in the nineteenth century the influence of the Machine caused so great an increase in the nation's trade that country joint-stock banks wished to imitate the Bank of England in the matter of creating more money, and in 1826 they were finally given permission to issue notes

provided they were situated more than sixty-five miles from London. This, together with other of the Bank's functions and privileges was embodied in a Charter, which, revised from time to time, took its last shape in 1844. The Bank Charter Act of 1844, therefore, still defines in the main the Bank of England's present position.

The money created by the "reserve" principle, being used almost entirely for loaning purposes, consisted not so much of notes as simply of figures in the Bank's ledgers. A borrower, however, had to have something to show for his loan, something tangible wherewith to conduct his trade, for which purpose the page in the ledger on which the loan was entered was of no use. The something tangible duly forthcame. It was the cheque. At the beginning of the nineteenth century a Mr. Joplin pointed out the possibilities of a cheque system. There was nothing in the Bank's Charter against it, and cheques, being convenient, became popular. A cheque, therefore, is a substitute for note or coin in the making of payments, and its fundamental function is to represent in liquid, transferable, divisible form, suitable for trade, the money which the bank creates when it makes a loan.

The Act of 1844 being still in force, the Bank underwent no further developments of importance until 1914 when war startled the Old Lady out of her seventy years' nap. She woke up to find she couldn't meet her liabilities. The inverted pyramid she had built and found steady as a rock in times of peace showed every sign of toppling about her head at the first knock of Mars on her counting-house door. The

Government went to the Old Lady's rescue, declared a moratorium, and during it arranged for the issue of a new kind of paper money which it called Treasury notes. These the Government declared to be legal tender, and very kindly undertook to print them for the Bank. The implications of this procedure are barely credible, for note what it meant. These notes were not backed by gold but by something far sounder, to wit, the nation's power, its will, its resources, its life, all of which together we can call the National Real Credit. This being an asset which belongs to the nation as a whole and to no one else, the Government, as the representative of the nation, was clearly the proper body to issue the money based upon it. Instead, however, the Government contented itself with assuring the public of the Bank's soundness and became its printer, as though it, the Bank, and not the nation, owned the National Real Credit. First the Bank borrowed the National Real Credit from the nation, issued notes on the strength of the loan, and so saved itself; and then—if you can believe it—the Government went to the Bank to *borrow* from it what was really its own; and we are now in process of being taxed to the tune of about £300,000,000 a year to repay the "debt"!

The latest development in the Bank's control of paper money took place early in 1927 when steps were taken to remove the machines used for printing Treasury notes from the Treasury to the Bank. This at least was an honest gesture, for with the printing machines resident at the Bank the real ownership of the Treasury note will be established in letter as well

as spirit. One supposes that the final step will be to turn the Royal Mint into a numismatic museum in which the King's image will be placed as an interesting exhibit to remind his subjects of bygone days.

Credit

Bank notes, Treasury notes, and coins, gold, silver and copper, together form only a very small fraction, less than five per cent., of all the money in use, the remaining ninety-five per cent. being composed of what is called Financial Credit, a form of money which is movable by cheque. Thus in England in 1920 the amount in round figures of the various monies used were as follows:

Checks	£39,000,000,000
Bank notes	£190,000,000
Treasury notes	£370,000,000
Coin	£200,000,000
Gold Reserve	£150,000,000

The Gold Reserve being concentrated in the Bank of England and not put into circulation, the amount of legal tender in circulation, paper and coin, was thus about £760,000,000, or less than £20 per head. Legal tender, in fact, is nothing more than the community's "small change." The reader may get a very fair idea of the proportion of Cash to Credit in daily use, by examining his bank pass-book: if his account is a normal one, he will find the number of entries denoting cheques made payable to "self" and cashed are very few compared to the number of the other

entries, all of which denote cheques not cashed. Owing to its great preponderance, therefore, over all other kinds of money the kind called Financial Credit deserves the closest inspection, and to know anything about it we must first be clear as to what we mean by the word Credit. In an economic sense the word has two meanings, one philosophical and the other monetary. Let us examine each of these briefly, the philosophical first.

Derived from the Latin word credere meaning to believe, the credit of anything is, quite simply, what is believed of it—the Faith attached to its capacity. This aspect of credit is called Real Credit. Thus if the nature of a particular thing is to work, then its Real Credit is the amount of work it is believed capable of performing: or if its function is to buy, then its Real Credit is the amount of things it is believed capable of buying. The Real Credit of a man is the amount of energy he is judged capable of turning into work deemed beneficial: the Real Credit of a horse is precisely similar: and the Real Credit of a factory is the same. Similarly the Real Credit of an island overrun with rabbits, as far as a marooned man who has to live on it is concerned, is the number of rabbits he estimates he can catch for his dinners. And so on. Economically speaking, then, Real Credit is inseparably attached to the idea of energy, whether the energy be brute as in animals, muscular, mental or spiritual as in man, insensible as in machines, or natural as in waterfalls and the growth of grass. Being thus anchored to energy Real Credit derives ultimately from the source of energy, the sun,

life; and further than that we need not peer. Seeing however that all energy is devoted in one form or another, as far as economics is concerned, to producing goods, we can put the matter in another form and say that the Real Credit of anything is the faith in its ability to deliver the right kind of goods when and where and as they are needed. Fundamentally, therefore, a country's Real Credit has nothing to do with money or the number of money tickets it prints or the amount of precious metal in its vaults, but consists rather in the number of happy and prosperous citizens it can produce. And this clearly depends on such things as the country's climate, its soil, its sense of security, the intelligence of its people; their ability and willingness to produce the things that will make them happy and prosperous; and so on. In the case of England during the War for instance, her Real Credit lay in her will to win; in the capacity of her people to fight, to plan and organize, to grow food or bring it across the sea in defiance of marauding submarines; in the power of her machine and the zeal with which she worked it; and in the foreigners' belief that her word was her bond. Money tickets entered the situation, it is true, but they entered it as servants, not masters. Conversely, in Germany, if some miracle had transferred all the world's gold coin to the Reichsbank's vaults it would not have availed to stay the crumbling of the Fatherland's Real Credit by a second, for this sickened solely of the belief that the country had neither food nor moral left, and could see no way to get them. A man cannot eat paper and gold or wear them or be

happy with them, and just as gold has more intrinsic value than paper, so behind gold, as it were backing it, there is something of greater intrinsic value still—Real Credit, capacity, will, knowledge, running factories, genius, fertile lands, efficiency, good harbors, promises kept, cows, justice, pigs, reputation. Cassio was upset about the loss of his reputation and rolled the word from his tongue in dreadful repetition because with his reputation he had lost the bulk of his Real Credit, and knew that his financial credit would suffer accordingly. So, too, if Britain's general credit stood high in the War it was because her Real Credit, with her soldiers singing and her animals fat, stood high. That was what mattered, and her financial credit followed proportionately high as inevitably as the night the day. If the country's Real Credit had fallen low, neither the King's image nor statesmen's exhortations nor Parliament's decrees, nor even the whispered wishes of the Bank of England's Governor, could have saved the country's financial credit from falling low too. Incidentally we can now appreciate better the nature of the security against which the Bank was permitted by a henchman Government to issue Treasury notes. That they should be issued was imperative, but that the banking system should regard them as its own property, and loan them to the very people who made their issue possible and to whom in truth they belonged, namely the nation, and demand—ultimate mockery!—their repayment with interest, is surely one of the greatest hoaxes ever perpetrated with a serious face. So much, then, for the philosophical

aspect of credit which, like faith, may be defined as "the substance of things hoped for, the evidence of things not seen."

Let us now consider the other, the monetary aspect of credit. It is called Financial Credit. Financial Credit is money, and modern money, apart from the "small change" of legal tender, is Financial Credit. It is the money manufactured by banks when they practice the "reserve" system. It is made, not of coin or paper, but of what we have hitherto called figures in a ledger; it is distributable and divisible by means of cheques; and it is as true currency as gold sovereigns and dollar notes despite the fact that it is so easily made. A simple example of Financial Credit was the £10,000,000 which only the famous Government raid on the London premises of Arcos in May, 1927, prevented the Midland Bank from manufacturing and loaning to Russia. Had the raid not quashed the project ten million new pounds would have been put into circulation just as though they had been made of gold and come from the Mint, and they would have been created in precisely the same way that money is being created every day by banks. The Midland Bank achieved newspaper headlines not because it was proposing to do something startling and unusual, but because it decided not to do something the like of which it does every day.

From what has been said it becomes clear that Financial Credit is, or should be, based on Real Credit: it is proper and natural that is to say, that the richer a man or a country is in Real Wealth the

more money that man or country should have to represent that wealth. If Real Credit is the estimate of goods producible, then Financial Credit is the embodiment of that estimate in money. Financial Credit is the monetary expression of energy devoted to production. It is, in a word, figures reflecting facts. These considerations are not academic: on the contrary their practical applications teem in daily life, a typical example being a window in Fifth Avenue, New York, blazoned with gold letters:

THE MORRIS PLAN
BASIS OF CREDIT
CHARACTER AND EARNING POWER

Financial Credit depends on Real Credit as Real Credit depends on energy. Money, in other words, should exist only to reflect the potential supply of desired goods, to call them into being, and distribute them when made; and for no other reason. The relation between Money and Goods is therefore a vital one and fundamental, and the stricter it is the more smoothly will run any economic system man may devise. For Money is of no use without Goods just as Goods are of no use without the right amount of Money wherewith to claim and distribute them. Since however the aim of all economic systems should be a happy life of plentiful consumption for the community, Goods and not Money are the primary consideration, Money following in their wake strictly in step. How different is the present system in which

Financial Credit is based not on Goods but Gold, and in which not Goods but Money is the primary consideration of those who control both.

To sum up, the two aspects of credit may be differentiated as follows:

The Real Credit of a community is Faith in its ability to produce Goods as and when and where they are required. The Financial Credit of a community is Faith in its ability to produce Money representing the value of those Goods as and when and where it is required.

Limits to the Manufacture of Money as Illustrated by the Federal Reserve System

The power of banks to create money is curbed by three main considerations.

The first of these is the general one that the more plentiful an article is, the less valuable it becomes; for it must always be remembered that first and foremost a bank deals in money just as a butcher deals in meat, treating it, that is to say, as a commodity for which there is a market. So that, quite literally, it *pays* a bank to keep money scarce, since scarcity of any commodity helps to keep its price up. And, like traders of all descriptions, banks prefer, up to a point, to do a smaller business at higher prices rather than a larger one at lower.

It is a problem which the Federal Reserve System of the United States, confronted by an enormous influx of gold during and since the war, has solved by re-establishing the countries of Europe on a gold

basis and by resale to them of a considerable part of this base of the potential expansion of credit. Another considerable part it has virtually demonetized by impounding it in the reserves.

As a consequence, during 1925 and 1928 gold has appreciated in purchasing power throughout the world. With declining price levels in Europe and the United States, trade and production have been hampered and millions of men have been thrown out of employment. In an article widely published in the American press on April 23, 1928, Professor Irving Fisher of Yale University said: "The 'purchasing power of gold, and various proposals to promote closer cooperation' were subjects of the four-Power financial conference in the United States last year. The gold exchange units of Europe and South America keep their purchasing power in goods only as the purchasing power of the gold dollar is kept stable. But here the ratio of the dollar to goods is not yet legally fixed. Until it is so fixed, and until it is fixed in terms of goods in other countries as well, the trade of the world may be jeopardized by a wrong decision by the Federal Reserve Board in its control of credit policy."

The world's leading economists agree with this view. The Swedish economist, Professor Cassel, in the Skandinaviska Kreditaktienolaget of July, 1927, referred in these terms to the world fall in prices:

"It is becoming increasingly evident that this fall of prices is connected with an increasing demand for gold for monetary purposes. Since the latter half of 1925 there has been a tendency for gold to flow back to the

United States, and in 1926 the net import of gold amounted to the rather considerable sum of 99 million dollars. In January, 1927, the import was no less than 47 million dollars. This import of gold is, of course, ultimately an indication that the United States is anxious to obtain gold covering for its currency."

Sir Josiah Stamp, in his speech of March 17, 1927, before the American Chamber of Commerce in London, remarked: "If the States continue a gold-absorbing and neutralizing policy they will be conducing to a lower external price level in Europe and elsewhere."

Professor Ohlin of Sweden is of the same belief with Professor Cassel, that the Federal Reserve System now holds the world price level in the hollow of its hand; he said in the Index, published by the Svenska Handelsbanken of Stockholm for June, 1927:

"The question of granting credit is . . . determined by what the Federal Reserve Board considers suitable from an economic point of view. This implies nothing less than a revolution in the monetary system not only of the United States but of all countries with a gold standard. The control of the development of the world price level has passed entirely into the hands of the Federal Reserve Board and Governors. . . . The Federal Reserve System has effected a 'valorization' of gold, comparable to the Brazilian coffee valorization. By releasing a portion of the surplus reserves it causes a drop in the gold value throughout the world—i. e., a rise in the world price level. By increasing the reserves it brings about an increase in the scarcity of gold and a fall in the world price level. . . . A real deflation would render Europe's economic recovery, if anything, still more difficult. It may well be asked whether the Federal Reserve Board is not partly responsible for the tardy improvement of the past few years."

In the same strain the Harvard Economic Service declared in its Weekly Letter of July 23, 1927: "If the United States continues to import large quantities of gold and then 'bury' it without allowing it to produce its natural effect upon commodity prices, the result can be nothing less than a continued fall of commodity prices in all countries upon the gold standard."

Of course, the banks, which were the largest holders of war bonds, and all holders of long-term securities benefited directly by this appreciation of the buying power of the interest accruals upon them, while the consumer masses of all nations were mulcted of the purchasing power of the units of currency paid them in wages. Moreover, with the piling up of products and the growing idleness of factories due to the dearth in general purchasing power, employment became more precarious and industry sought with greater vigor the means of displacing men by machinery, which was cheaper to run.

The second consideration is that a bank will only create money and lend it if it is reasonably certain of being able to recover it—with interest; the sole object of creating it at all being to make a profit out of it. But unlike most merchants, though a bank regards money as an article to trade in, it does not sell it. Instead, just as a costumier hires out a costume for a period and charges a fee for his service, finally recovering both the costume and the fee, so a banker hires out money for a period and charges

the Bank Rate for his service also finally recovering both the principal and the fee, called in this case the Interest. Continually to perform such hirings-out is the reason for a modern bank's existence. A bank will therefore create and lend money to anyone whom it judges capable of both repaying it and paying for it, quite irrespective of the kind of goods the borrower proposes to produce. A costumier does not inquire into the private lives of his customers as long as they pay up, and similarly there is nothing to prevent money being created in the U. S. at the present moment and loaned, say, to a manufacturer with a contract to make battleships for a country which may one day be at war with the U. S.

A bank being what it is, these two considerations are natural and inevitable. Once the right of a bank to deal in money as a commodity is recognized, it becomes proper for it to ensure, first, that its value shall be kept high, and second, that when it hires it out it shall be able to get its price.

Perhaps this second consideration had a good deal to do with the sudden decision by the Federal Reserve Board in August, 1927, to lower the rediscount rate from 4 per cent. to 3 1/2 per cent., with the result that gold began again to flow out of the country to London and other European money centers where the bank rate was higher. This policy was opposed by the Federal Reserve Bank of Chicago, while after four months of it Governor George J. Seay of the Federal Reserve Bank of Richmond declared that he "doubted if commercial banking generally over the country in the purely banking field is profitable at the present interest rates." Governor Seay's bank was one of the first to revert to 4 per cent. in February, 1928, followed by the rest of the system.

In February, 1928, the 4 per cent. rediscount rate was restored. But the effect of the maneuver up to April, 1928, was to rid the Federal Reserve System of some $300,000,000 of gold that had been drawing no interest, still leaving more than a billion net that had accumulated since 1921 in excess of banking needs, chiefly by importation.

What can be done with this billion of gold, together with $600,000,000 more that can be released at any time by exchanging a billion of gold certificates for Federal Reserve notes that require only 40 per cent. reserve, is the problem faced by the American banking system in 1928.

Credits based on this gold are not needed in trade, because the industries of the country can produce much more than they can sell and need borrow little money for extensions or improvements. So the bankers have lent it and invested it, so far as they dared, in real estate and foreign and domestic securities, with an attendant inflation of the stock market that is without precedent. The United States Banking Act permits a reserve on time deposits of only 3 per cent., which constitute nearly half of all deposits. Largely as a consequence of the inflation of securities and of real estate values, the loans and investments of member banks of the Federal Reserve System had risen on June 30, 1927, to almost fourteen and a half

times the amount of their reserve deposits, representing a credit expansion since 1921, chiefly through loans, of about sixteen billion dollars.

During this period extra taxation had diminished the American war debt by about seven billion dollars. This sum, which had not been used in consumption and had been used at least once in production, had to be reinvested, if at all, in the productive process or in inflation of securities and real estate. The tendency, therefore, of this enormous payment of public debt was to deflate commodity prices still further and to deprive American workingmen of their chance to earn a livelihood.

So with lessened markets for their goods, commerce and industry could hardly be expected to meet the bankers' second requirement, namely, that interest and principal be repaid for extensions of credit. The business of the United States had become increasingly risky.

There is nothing natural and inevitable about the third consideration, however, which is artificial, self-imposed and connected with the "reserve" principle. According to the working of this, the amount of money created by the Bank of England never ordinarily exceeds a certain multiple of the amount of gold in the Bank's possession. What this multiple is, is unimportant; the important thing is that it is fixed arbitrarily by the Bank of England. It can be accurately defined as the biggest multiple considered consistent with safety. In the U. S. A., where the Federal Reserve Bank corresponds to the Bank of England, the multiple is fixed by law, according to

which the Federal Reserve Bank is required to hold a reserve in gold or legal tender of at least 35 per cent. of all the money manufactured by them. That is, if it possessed only 35 dollars in gold the limit of its manufacture would be 100 dollars, or 2.85 times as much. But the matter does not end here. In practice, none of it illegal, exactly 1,000 dollars can be manufactured with a backing of 35 gold dollars. This startling increase of ten times what the law intended is effected solely by legitimate interplay between The Federal Reserve Bank itself and the member banks of the Federal Reserve system. This interplay is too intricate to be described here in detail, but it may be stated that through it, every increase of 65 cents in a bank's reserves entails on an average an increase of 10 dollars in "deposits," and it has been calculated that if a customer brought a million dollars to a member bank of the system, the system as a whole could expand this amount no less than 28 1/2 times.

As a matter of fact, an expansion of this sort was accomplished in the case of the new gold brought into the United States during the three years between March 31, 1924 and March 23, 1927. Dr. Henry A. E. Chandler, Economist of the National Bank of Commerce in New York, recounts in Commerce Monthly, November, 1927, the effect of the increase during this period in monetary gold bullion and coinage of 230 million dollars. Dr. Chandler says:

"The net importation of gold during this period was 184 millions. If we accept the estimate that the equivalent of about 25 per cent. of our own gold production

goes into monetary stocks the net addition from our production for the three years would be about 35 millions. The sum of the two amounts is 219 millions, which is fairly close to the 230 million increase in monetary gold stocks as disclosed by the Treasury statement.

"The expansion of loans for all banks in the United States during this period was, therefore, more than 20 times the amount of new gold, and the expansion of total loans and investments was about 35 times."

While Dr. Chandler does not insist that all of this expansion was attributable to the new gold (since some increase in earning assets and of secondary expansion occurred) he concludes that every dollar's worth of gold coming into the United States during the three-year period had been "utilized by the member banks for the primary expansion of credit to the limit permitted by law." He adds:

" . . . At times there has been such an excess of money as to cause unusually keen competition among commercial banks to place their excess funds and many banks unable to place them in the ordinary channels of commerce have had to seek out new ways of employing them. The result has been that banks not only have sought new means for employing their funds in this country, but they have reached out to many parts of the world."

And this explains why, at the instance of the money-lenders of the United States, the world's stocks of gold are again being distributed where they will yield most to their holders, who can control its ups and downs to their own profit, under the universally restored gold standard.

In England interplay much to the same extent

takes place between the Bank of England and the "Big Five."

The Gold Standard

The general system under which the manufacture of money is regulated by the amount of gold held in reserve by the banks is known as the Gold Standard. Efforts by Finance to invest these two words with an air of mysterious sanctity and to cause the Standard to be regarded as a panacea have been fairly successful, and the nations, following England, have been persuaded one by one to return to it. The method of persuasion reminds one of a certain headmaster who once said that his "wishes were his commands." However, the Standard being fundamentally irrational, we have not been healed by returning to it, and the reason is not far to seek. Indeed, we found it a page or two back, for money being tickets to claim goods with, the correct amount of it in existence at any time is the amount able to claim the total production at that time; Production functioning to its limit or until it satiates consumption—whichever happens first—and money tickets then being issued accordingly. Note the order: first, Industry should function; second, money should be issued so that what Industry has produced may be used, claimed, bought, consumed. As we saw, there should be a constant valid relation between money and goods, between Finance and Industry, and Industry should set the pace. Now the moment we consider the Gold Standard we see that none of these things can happen and

no such valid relation exist. For the amount of money under the Standard is designed to depend, is acknowledged to depend, on the amount of gold in the banks' vaults, and the amount of gold there or anywhere else has nothing whatever to do with a community's power to produce goods and consume them. These things, production and consumption, are realities, are natural things, and men wish to lead natural lives, but, as it is, fettered to a system which is both irrelevant and unnatural, they are compelled to lead unnatural lives: for there could be nothing more unnatural than poverty stalking broadly and unashamed through the world in an age of super-plenty. So far from being a true reflection of real credit, real capital, real wealth, under the Gold Standard money becomes nothing but an arbitrary multiple of the market value of a metal ultimately valuable only for decorative and dental purposes. At present a country's money does not vary with its prosperity, but only with the amount of gold it happens to have cornered at the moment. Nor does prosperity necessarily blossom from an abundance of gold, as the U. S. A. discovered in the 1920s when she became positively embarrassed by possessing too much of it—a situation that emphasizes the system's artificial absurdities with Gilbertian point.

Moreover, the Gold Standard is only feasible for as long as gold retains all its qualities, including the important one of rarity, and this no one can guarantee, since these are times in which the dreams of alchemists are liable to come true, and any day we may wake up to find—who knows?—that gold can

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be made synthetically or by transmutation or in some other wondrous way now unthought of, quite apart from the possibility of discovering vast fresh deposits of it. In this latter connection man has hitherto had devil's luck, as though the devil himself favored the Gold Standard, for at least twice the discovery of fresh gold fields, to wit, in South Africa and Canada, has coincided, though quite independently, with big expansions of trade; which fortuitous coincidence meant that the new trade was able to absorb the new gold and so keep its value steady, and conversely the new gold was forthcoming at the right moment to finance the new trade. We may not always be so lucky. A time may come when either fresh gold is found but no proportionate fresh trade to absorb it, or a potential burst of trade is kept in bud because additional gold to back it with is not forthcoming. To base a modern monetary system on gold is therefore as precarious in the long run as speculating in undeveloped gold mines. Ruskin pointed to a surer, saner way. "There is no wealth but Life," he said. "That country is richest which nourishes the greatest number of noble and happy human beings." Interpreted, this can but mean, "Base your money on Life-Energy, Real Credit."

At this point a very natural question arises. If the Gold Standard is as ridiculous as it seems, how is it that the nations not only submit to it, but, in the case of those who dispensed with it for a time, return to it as to a long lost lover and abide by it afresh? The answer is an old one. Why did the children of Israel worship the Golden Calf? Because they were told to,

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and also because they liked gold, and therefore the Calf, although it did nothing for them. So to-day, we abide by the Gold Standard, smilingly, hopefully, uncomplainingly, because we are told to, by Aaron's successors, and also because, as of old, we are dazzled by the coin-glitter as birds by the fowler's glass, although it does as little for us as the ancient Calf. But why, to go a step further, are we told to abide by the Gold Standard? In a word, because the Gold Standard profits Finance, and Finance leads the nations like little children—by their noses. Finance finds the Standard profitable because it perceives in it an excellent reason for keeping money scarce, and as mentioned before, the greater its scarcity the higher its price. The grounds for keeping money scarce remain unimpeachable therefore as long as money's foundation itself remains scarce. Then, again, besides assuring the financier his price, the Standard assures him his power; for as long as he possesses the world's supply of gold, and as long as money can be made only with gold to back it, so long does he possess the money monopoly. Were money to shift from a gold basis to the more logical one of real credit, Finance's power would be precarious instead of unshakable, since in no way does it own the community's Real Credit. Habit can be very strong, however, and it was disastrously so in 1914 when the Government, so long accustomed to regard the banks as the sole makers of money and the only possible ones, allowed them to borrow the nation's Real Credit to issue money against. Banks had always made the nation's money hitherto and it therefore seemed inconceivable

that anyone else should ever make it—even when it was backed, not by gold, but by the national energy, which was stored anywhere but in bank vaults. In brief, England returned to the Gold Standard because she was told to, and she was told to because the few who issued the command knew the return would pay them.

Licensed Forgery

If there is one fact more indisputable than others it is that money, which is not backed absolutely quid pro quo by legal tender, dilutes the currency and has the same effect as if it was forged money. This is not to say that such dilution is an evil—it is the reverse and a vital necessity—but the fact remains that when the banks, which are private concerns, manufacture Financial Credit they are usurping the sovereign privilege of coining money. When anyone other than the banks attempts to usurp this prerogative they are visited by the severest penalties. Thus Henry the First had a habit of chopping off the right hands of people he found monkeying with the Royal Mint; and in 1915 there was a certain Mr. Williams who, though he added temporarily at least £60,000 to the purchasing power of the community by working a handle somewhere in North London and turning out a masterly series of Treasury notes, paid eventually a very heavy price for them. The difference between these unfortunates and banks is not that the former forged and the latter don't; they both forge, but the banks are the only institutions licensed to do so. They

are licensed by charter and the tacit consent of the community, with the result that the forgeries, though like all forgeries they dilute the currency, are accepted as true money and perform all its functions. It is well that it is so, for dilution of the currency is essential to trade and the whole life of the community. The amount of gold being insufficient to work with, someone has to circulate more money; it has to come from somewhere; and in some ways we may be thankful that the diluting agency is the well known and venerable Bank of England rather than the obscure adventurous Mr. Williams and his like, for with the former we know more where we are. If, therefore, we are stressing the function of the Bank of England as a manufacturer of money it is not with the object of impressing the reader with the idea that such manufacture is criminal, but rather with the importance of the fact that it is a private bank that does the manufacturing, and that a body not responsible to the nation has sole sway over the nation's means of life.

This idea of creating money out of four simple and almost costless materials, faith, ink, a pen, and a page in a ledger, is certainly a startling one. The largeness of the amounts, the ease with which they are brought into being, the absolute newness of the money, and the fact that but a moment before and it was not—these things are hard sayings for those who have never given much thought to the process of modern money manufacture. The way to deal with the hard sayings,

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however, is to chew on them, not spit them out. What actually happens is as follows:

The scene is a banker's office: seated, the banker: by him, also seated, the industrialist. The latter is asking for a loan from the former. He explains its purpose, states its size, and mentions the various bonds, mortgages, stocks or shares he is prepared to deposit against it as security. If in his turn the banker approves of the uses to which the loan is to be put, feels reasonably sure of getting his money back, with interest, and considers the securities offered sufficiently secure, he nods, and the loan is made. Figures—say, a one and six noughts—are written in the bank's ledger, the securities are locked in the bank's safe, and hey presto! a million pounds have been created. For watch the subsequent activities. The industrialist can draw on the million pounds by means of his cheque book, and this he proceeds to do. He contracts with an engineer, say, to erect a plant and in due course pays him with a cheque, which is money and part of the million entered in the ledger. The engineer in turn sends this cheque to his own bank, and converts portions of it week by week into cash to pay his employees. The next step is that these pounds and shillings are taken by the employees to their wives, and before the shops shut for the weekends they have been used through the neighborhood to claim Sunday joints. So much for the reality of the money inked in the ledger in simple figures from banker's nod to roast beef, than which nothing can very well be solider or more real. Next, for the newness of the million pounds.

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At first sight it may seem that the money in question is, after all, nothing but the money represented by the collateral securities and neatly transferred to a ledger. But it is nothing of the sort. The securities are affected in no way whatever by being deposited in the lending bank's safe. They live their own life all the while, independent and untouched, and though triply barred behind plates of steel they do not languish but continue to draw interest. Moreover, if they were not deposited with the lending bank as securities they would ordinarily be deposited with their owner's bank for safety. Their value is not affected by the particular bank in which they are deposited or by the purpose of their deposit, remaining on the contrary constant whether a loan is made or not. For example, if the money value of the securities is £x and that of the loan £y, then the loan increases the money in existence by £y, making a total of £$x + y$, since £x neither disappear nor diminish upon the creation of the loan, but remain £x throughout. It is perfectly true, of course, that one of the conditions for the creation of £y is the previous existence of £x, but £y is none the less absolutely new "money". And the term "creation" is perfectly justified in this connection, for nothing whatsoever is created except out of materials of some kind already existing. Everything, even new money, has a foundation of some sort, and nothing descends from the blue without rhyme or reason. So that to question the quality of newness in the money under consideration on the ground that it could only be created because securities existed, is like questioning whether the birth of a

child increases the population on the ground that it could not have been born without the collateral existence of its mother. Mr. McKenna, as chairman of the Midland Bank, stated the facts unequivocally when he said, "The amount of money in existence varies only with the action of the banks in increasing or diminishing deposits. We know how this is effected. Every bank loan and every bank purchase of securities creates a deposit, and every repayment of a loan and every bank sale destroys one."

The Destruction of Money

If every loan made to Industry increases the money in existence, the uninitiated might conceivably picture an ever expanding volume of it piling up until it topped Olympus. Such of course is not the case, and in this connection Mr. McKenna, as quoted above, is doubly illuminating. He shows us not only how money is created but also how it is destroyed. A loan creates money and the repayment of a loan destroys it. It is very simple, but the word "deposit" as used by Mr. McKenna perhaps requires a word of explanation. If we saw an item on a bank's balance sheet running into many millions entitled "New Money Created by Us" it might make us think, and that is the last thing Finance wants us to do. "Deposits" looks better; and it is equally truthful, for what is the new money but a deposit of the person to whom it is lent? As soon as our banker created the million new pounds and lent them to our industrialist they were deposited in the bank, the manner of de-

positing them being to write a one and six noughts on the credit side of the industrialist's account.

The repayment of loans is the only way in which money as a whole is destroyed. Other ways do exist, of course, but they are practised infrequently and then only for some exceptional purpose, as in the following instance, which deserves to be mentioned chiefly, however, because it exemplifies so well the intrinsic worthlessness of even bona fide currency. In 1926 "banknotes to the value of £830,000 were publicly burnt in a retort at the Rome gasworks to decrease the circulation. The ceremony was attended by the Finance Minister, Signor de Stefani, who stated that the notes would not be replaced. He hoped to repeat the burning often in the future." Then, again, India absorbs a certain amount of gold every year and so virtually destroys it, the Hindu peasant having a strong habit of burying as much gold as he can afford of what comes into his possession: in this way it is computed that as much as forty per cent. of the world's total gold production is absorbed annually. If not buried it is jealously guarded in the form of unproductive precious metal, uncoined, and put to ornamental uses. But for all major purposes we may say that modern money dies by exactly the reverse process to that by which it was born. It is created by entering figures on one side of a ledger, and it is destroyed by entering similar figures on the other side. Thus our "£1,000,000" has been offset, balanced, cancelled, destroyed, or repaid by another "£1,000,000" and it is a case of "as you were." No longer existing, it has achieved Nirvana. The bank

gave, and the bank has taken away; Awful be the name of the bank.

The Ownership of Money

The power resident in banks through their function of creating money and destroying it is incalculable. Instead, however, of bowing too low before such power we should cling to what is an important consideration, namely, that, though the banks create money, they don't own it. That is to say, they should not. It is true that they possess the technical and practical power to create money, and do create it, but they are able to do so only in virtue of the community's energy and assets, on the strength, that is to say, of its Real Credit. The securities upon which the creation of money partly rests are themselves nothing but reflections of Real Credit, and as we saw, Real Credit as a whole belongs to the community as a whole. The ultimate or fundamental ownership of money therefore resides in the community which uses it and not in the banks which manufacture it. A community owns its economic blood as a man owns his red blood. Doctors are useful as experts for helping a man to keep his blood pure and in wholesome flow, but a doctor does not own another man's blood, not even if he saves his life. And we should view with some suspicion a printing firm which simply because it printed railway tickets managed to establish a subtle ascendancy over the whole railway system and made engine drivers and porters beholden to it. In the same way banks cannot lay any

particular claim to money itself merely because they happen to work the machinery for creating it. Regarded rightly, banks are the agents delegated by society to work money's moderately complicated machinery, and not to control monetary policy, as Mr. McKenna, at an annual meeting of the Midland Bank, confessed they did, saying, "To define monetary policy in a few words, 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." To appreciate where the ownership of money properly lies we must take trouble to distinguish between policy and, what is very different, administration, Policy being the end we aim at and Administration the way to get there. And if we are of the opinion that the true role of Finance is that of expert guide to its master, the community, we should see to it that it behaves as such and does not turn its expert knowledge to its own exclusive advantage, and quietly become our master.

CHAPTER EIGHT

A + B, OR THE CHRONIC SHORTAGE OF MONEY

We should now have some idea of money in general and modern money in particular. We saw that the latter's function was that of tickets; we saw that these tickets were made of Financial Credit; we saw that it was the banker who made them; and we saw that their manufacture was limited on the one hand by the banker's business caution and considerations of personal profit, and on the other by the fortuitous amount of gold in his possession. And that is all we saw. In other words, while we saw something of money in its relation to gold we saw nothing of what is far more important-its relation to goods. So that it remains for us to enquire whether the money distributed to society under a system of banker's nods is the amount which society needs; whether it will enable the men and women and children composing society to claim all the goods they want which Industry can produce for them; for obviously on this the economic health of society and the happiness of each of us ultimately depend. It may as well be stated at once that our enquiry will reveal an economic sore which refuses to heal, for we shall find that *the volume of money in the community's pocket is, and under the*

present system must be, chronically insufficient to buy Industry's output.

As a gross illustration of this truth, let us take the figures of wages, salaries and dividends paid out by Industry as possible purchasing power during 1918, as estimated by the National Bureau of Economic Research (Income in the U. S., No. 2, pp. 242-248).

The total amount of wages and salaries paid in the various branches of Industry in continental United States in 1918 was $32,076 million, and the total disbursements to past or present employees in the form of wages, salaries, pensions, compensation for injuries, and payments for work done under contract were $32,575 million.

But the net value product of all industries in 1918 was $60,366 million.

The share of entrepreneurs and other property owners in non-agricultural industries in 1918 was $12,973 million, of which $4,108 million was estimated business savings, leaving $8,865 million which might be drawn upon for purchase of ultimate consumable goods. This, added to the $32,575 million of wages and salaries, etc., amounts to $41,440 million of payments by Industry during 1918 to ultimate consumers.

Reckoning profits as wages of management, and therefore as an item of business costs, it will be seen that the cost of doing business in 1918 was $60 billion, of which, allowing for individual savings, about $40 billion was distributed for purchase of consumables. Therefore one-third the total cost of output in 1918, according to this reckoning of the National Bureau of Economic Research, could not be recovered from consumers' income in that year.

If we take the series of years from 1909 to 1918, inclusive, we see that the same proportion holds; that of the $390 billion of gross value of output for those years, only $266 billion was distributed as wages, salaries, and dividends. That is, the rate of flow of money through the industrial process into consumption was constant throughout the ten-year period—about 67 per cent. of the flow of output values. During this period, therefore, Industry was never able to get back from consumers the total costs of carrying on business, and actually fell 33 per cent. below the amount needed for such recovery. It is reasonable, therefore, to infer that no matter over how long a period we measure the flow of money issued into ultimate consumption, we find this rate of approximately 33 per cent. of the total value of output missing.

Yet over any given period of time consumable goods are priced to include the costs of all intermediate and capital production. This is true because they are the only point in the whole process of industry and commerce where the motive of financial profit is displaced by the motive of purchase for the satisfaction of wants. It is from the cash in the hands of individuals spent for individual consumption, therefore, that prices are made to recover the accumulated costs of production. These costs include the accumulated profits in each stage from the retailer back through the jobber and manufacturer to the prime producer. But all the while the amounts dis-

tributed by Industry as purchasing power must, of necessity, be less than the costs of production, and less than the prices that must be charged.

The difference must be made up from some source outside the industrial process, namely, from the credit extensions of the banks.

(This is as true for all industry as it is for an individual corporation. But see the same demonstration, made Fig. 29, p. 179, of "Business Without a Buyer" by Foster and Catchings, with respect to the distribution of a dollar of income of the General Electric Company from 1918 to 1922, inclusive. This figure shows that 54.3 per cent. of the company's income is constantly being diverted to other uses than the covering of its 100 per cent. of costs; that only 40.9 per cent. goes to cover costs in the form of salaries and wages, and 4.8 per cent. in the form of cash dividends.)

Bank credits constantly circulating as money amounted in July, 1926, to $42,700 million—more than enough to make up for the deficit in consumers' income, and enough to allow for a considerable capital expansion besides. These bank credits are used mainly for extensions and improvements of plant and its maintenance—issued primarily to producers and used by them in production, a large part of which consumers cannot buy. Their lack of ability to pay for this net value product, as charged in prices, explains largely the margin of plant idleness that is the constant accompaniment of industry even in "good times."

This margin of idle plant represents the risk which

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must now be taken because of the financial policy of issuing new currency only from private sources and to producers, instead of to consumers in the form of a public currency expanded in step with the expansion of industrial output.

In accordance with this financial policy, new money is *never issued* at the point where all costs that have been added cumulatively in the productive system, namely, where the individual consumer appears as the buyer, are covered in price.

The Flow of Money

It is the nature of money, like blood, to flow. It stands still never, but circulates perpetually. In cases of most substances which flow in circles the difficulty is to tell where they started, whether for instance the rain cloud or the spring came first, the hen or the egg. With money, however, this difficulty does not arise for we know now that it starts in a bank. The dividends we received last quarter, our salary, the check we paid into the bank yesterday, the notes in our wallets, the coin in our pockets, all of them were born in a bank, of a nod. Once born whither does money flow? Very briefly, as follows:

1. From the bank to Industry.
2. From Industry to the consumer.
3. From the consumer to Industry.
4. From Industry back to the bank.

1. Following the flow in a little more detail, money flows from the bank to Industry as a *loan*.

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2. The flow from Industry to the consumer is a trifle more complicated because the money does not flow all at once. It forks into two. One stream flows direct to the consumer, but the other meanders for a time through the land of Production where it is used to distribute unconsumable or capital goods within Industry's various veins; then, having performed this function by the way, it, too, flows to the consumer. Money flows in both these streams as *Costs;* and the "cost of production" is simply the volume of money which has flowed through the land of Production.

3. When money flows from Industry to the consumer it is flowing from Production to Consumption. The flow is no longer forked but once again a single stream. Until it reaches Consumption it flows as Costs, but after reaching it, flows as *Purchasing Power,* and the consumer welcomes its arrival in the land of Consumption as tickets with which he can buy ultimate goods. When he has bought them an interesting thing has taken place; he has started the money he has spent on its homeward course. For the consumer is the extreme point to which money flows, and when he spends it it begins to flow back, the exact point of turn being the retail shop counter. Thitherto it flows away from the bank, thereafter back to the bank, and the moment the consumer passes it over the retail counter it flows back; first, into Industry—as *Prices*. From the consumer's point of view, therefore, money reaches him from Industry as Purchasing Power and leaves him for Industry as Prices.

4. The last flow is from Industry back to the bank as *Repayments,* and on arriving there it is destroyed as easily and as quietly as it was created. The figures written on one side of the ledger are killed off or "balanced" by fresh ones written on the opposite side, and the money no longer exists.

That is the way money flows, and truly, if there is romance in much movement and far-flung activities, the slender note in my pocket experiencing these and living its short life under no less than five aliases—what a desperate character!—has a goodly share of it. I shall spend it with reluctance, for it will be as though I were sending it to the gallows.

A + B

Bearing in mind this picture of money as a flow let us take a typical unit of Industry, a factory, say a boot factory, and consider it from the monetary standpoint. As already stated, money flows out of such a factory as Costs and into it as Prices. For the moment let us attend exclusively to Costs. The point to note about them is that however varied and numerous they may be they all come under one of two quite distinct headings, which we will call A and B; in which A denotes all payments made to individuals, and B, all other payments. Clearly, in this way all the factory's Costs are accounted for and are denoted by A + B. What then do these letters represent respectively? A, the total payment to individuals, consists of salaries and wages and dividends, and it will be found that there is no payment made to indi-

viduals, as such, that is not either a salary or a wage or a dividend flowing from Industry. B, all payments other than A, consists of what are called Capital or Overhead Costs, such as payments for raw materials, for the erection, extension or upkeep of plant, rates and taxes, interest on bank loans, etc., and by definition there is no payment excluding A which does not fall under the heading of B.

In the foregoing section we noted that the money flow forked as it flowed from Industry to the consumer, and now we can identify the two streams forming the fork as A and B. A is the one which "flows direct to the consumer" and B the one which "meanders for a time in the land of Production."

Now the first point to notice is that B never reaches individual consumers *as B,* since by our hypothesis when it does finally reach them it has ceased to be B and has become A. All of which only means that a telephone company does not step into a shop to buy a hat, nor a bank scramble for underclothes at a bargain sale, nor an engineering firm go to the movies, nor a cotton mill sit down to dinner. The next thing to note is that A alone is the consumer's purchasing power. It alone enables John Smith to buy the things he wants. B, not reaching him, won't buy them. Indeed, B may be regarded largely as the American Express Company of Production, since what it does is to transfer things from one branch of Industry to another, and from the consumer's standpoint all the things so shifted are either undesired or unconsumable. The consumer has no use for drainpipes, shipyards, raw cotton, blast furnaces and the like, as such,

and none of them, Intermediate goods all, come into the consumer's market or ken, but remain always in the Land of Production. Only A is available to buy Ultimate goods like saucepans and blankets and chops. A nation has A in its pocket; but not a penny more. Conversely, all the money in its pocket is A: it has not a note or a coin to spend that is not part of A. By the very definition of A this is obviously so in the case of people directly engaged in Industry, but it is equally true of those who have no apparent connection with it. The money which a schoolmaster, say, or an actor possesses—to choose two occupations about as far removed from Industry as possible—is just as much part of A as the money paid direct to factory employees. One moment's thought will make this clear, for the schoolmaster receives a check from the governing body, and the governing body gets the money to pay it with partly from gilt-edged dividends (A) and partly from the pupils' parents who in turn get it either from dividends (A) or directly as salaries from Industry (A). Similarly the actor, if his play is successful, draws his salary from the money paid by the audience, who get it in various stages from Industry (A) just as the schoolmaster got his; if the play is a failure, he draws it from the backers who get the money for it from Industry as dividends or salaries (A); if it is a very bad failure he may be unsuccessful in getting his tickets of purchasing power from either of these sources, and feel constrained to touch someone for them, and in this case too they can be traced back to a salary or a wage or a dividend paid out by In-

dustry. And so on with people of every calling, even including the person who has no calling and is merely a dividended gentleman of leisure. In all cases what they spend is A and only A. Like The House That Jack Built, the tracing of all purchasing power back to A is merely a question of stages.

From the foregoing we see that the numberless bits of purchasing power comprising A are extremely active during their short sojourn and pass from pocket to pocket. It might be thought that this activity in some mysterious way increased the amount of A, but this is a delusion where the quickness of the movement deceives the mind. It does not increase A; nothing can increase A. And if someone says "Oh, yes it can. I will sell out $1,000 worth of shares and that will increase A by $1,000" he is deluding himself. For all that happens is that the $1,000 he puts into his pocket as A is balanced by a $1,000 which someone else, in buying the shares, puts back into Industry. The seller of the shares increases A by $1,000 truly enough, but simultaneously the buyer decreases it by the same amount: net result, A. "Yet surely," the reader may reasonably persist, "a single piece of money, say a pound, or a dollar, does purchasing work many times its value, going from butcher to baker, from baker to tinker and so on, buying now a pound or dollar's worth of meat, now a pound or dollar's worth of bread, now a pound or dollar's worth of utensils, so that in the end it has claimed perhaps 20 pounds' or dollars' worth of goods?" The answer is No, for the correct way to regard the pound or dollar as it skims from consumer

to consumer is simply as an agent for shifting goods from one person and place to another. It is in fact another Carter Paterson or American Express Company. It shifts ultimate or consumable goods about the land of Consumption just as we saw B shifting intermediate and unconsumable goods about the land of Production. The dollar or pound comes from Industry as a single dollar or pound of Purchasing Power and it returns to Industry as a single dollar or pound of Price; and nothing that happens in the meantime can alter this fact. The truth is that modern money has two functions. The first enables goods to be claimed, the second effects their interchange after they have been claimed, and unless the first functions adequately the whole economic system is sick, for there is little use in being able to distribute goods unless you can first get hold of them. The mechanism of money when it functions as claiming power is therefore even more important than its mechanism when it functions merely as distributing power, and no amount of bustle in the distributing department of Consumption will increase by a penny the definite and limited amount of money flowing as purchasing power from Production. All of A's activities, before it *finally* disappears from the retail shop counters, are essentially transferences and not purchases of goods, and whatever their number they do not and cannot alter the volume of A. The only thing that can alter A, the only tap regulating its volume, is Production or Industry, whence A originally flows. Consumption has no means of turning the tap on further. In a word, the number of Express trucks doesn't

increase merely because the mileage they cover grows greater. To sum up, then, the total purchasing power of the community is exactly and only the sum of the wages and salaries and dividends paid out by Industry (A), and cannot exceed this amount.

We can now return to our boot factory and face the crux of the whole matter. In addition to pouring forth a stream of money the factory pours forth something much more important—boots. Boots are more important than money because boots are the real object of the boot factory's existence, boots being the end, money only the means of getting them. Once claimed, boots can do things which money itself can never do, such as enable people to walk in comfort and keep their feet dry. Obviously, then, the important thing is to be able to claim the boots. Now this process of claiming or buying is part of the financial system and is concerned with the little label implicitly attached to every boot. On this label is a figure, and this figure is the boot's Price. The rule is that anyone wanting the boot and presenting a piece of purchasing power whose figure coincides with the label's figure, gets it; that is, if you want the boot you've very properly got to pay for it. You've got to pay its Price. *Now under the existing system Price is a figure that includes all Costs*. It has to, because at present Price is the only way through which the manufacturer can recover his Costs, and recover them he must if he wishes to continue to make boots and remain solvent. Now, by hypothesis, Costs are exactly A + B. Therefore Price must be at least A + B, with the addition of an amount representing Profit. It

follows, therefore, that a Price of at least A + B must be paid before the factory's whole output can be claimed. But the factory has only distributed A for the Price to be paid with. Consequently the whole output cannot be bought. You cannot buy an article marked A + B pounds or dollars if you have only A pounds or dollars in your pocket. No one can, a community no more than an individual. *The purchasing power of A cannot claim goods priced at A + B*. And that is the root of the economic evil at present afflicting the whole world.

A can buy only A's worth of boots. Our manufacturer is thus left with B's worth of boots to dispose of, and dispose of them he must, or go broke. He disposes of them two ways. One way is to export them. If consumers at home cannot buy them, however much they may need them, consumers must be sought outside, and to "capture a foreign market" really means to insure by all the weapons of competition that the foreigner shall be induced to spend some of *his* A on the boots for which there was insufficient purchasing power at home. Of export trade, however, more anon. The second way in which our boot factory is kept in business is practised simultaneously with the first, and consists in fresh loans of new money being made to the boot manufacturer by the bank. Such an issue fulfils two functions: it enables the factory to repay its original borrowing; and it releases a fresh flow of money, with the new A stream of which some more of the original boots can be bought. Very unfortunately, however, it also releases fresh streams of boots! So that the original deficiency

of money to absorb the original boots with, recurs, and each time in an aggravated, magnified form. Though grimly Gilbertian in their results, it is these two expedients, export trade and fresh credit, which by their continuous interplay stave off the awful consequences of A chronically lagging behind A + B, and on which our economic life depends as a sick person on doses of oxygen. The gods, however, do not suffer the introduction of Gilbertian fantasies into a world of realities without imposing penalties which "fit the crime." The penalties are twofold. First, Industry is getting more and more into Finance's grip and bounden to the banks, so much so that it is not untrue to say of Industry as a whole that one loan is only repayable by the borrowing of a fresh and greater one; and secondly, the importance of export trade becomes grotesquely paramount, and home consumption, the comfort, welfare and happiness of the nation, though the be-all and end-all of Industry, becomes a secondary consideration.

Anyone with a moderate working knowledge of the world to-day knows not only that this twofold penalty is being paid, but that the prevalent economic disease arises from paying it. To put this vital matter briefly, then, we can say that, under the present system of accountancy, Costs can be recovered only through Price, and the Consumer never has enough Purchasing Power to pay it; and to counteract the chronic discrepancy between A and A + B expedients are practised which are unsound in themselves and must be ultimately disastrous in their conse-

quences. How disastrous we shall see in the next chapter.

The Importance of the Time Factor

It is not difficult to appreciate the A + B Theorem, as it is called, from a birdseye view, but none too easy to grasp it in detail. Failure to do so is usually due to a disregard of the factor of *time,* though this, always present, is the very quintessence of the Theorem, and it was to emphasize this factor that the present chapter opened with the conception of money as a flow, since the ideas of time and flow are inseparable, and taken together they involve a *rate of flow*. Furthermore, a little consideration will show that the rate of the money flow is essentially bound up with the rate of the goods flow, for obviously—in the problem's simplest form—there is no use whatsoever in producing a thousand pairs of boots if *at the same time* a thousand tickets are not issued in respect of them. They will merely cumber warehouses, where, for all the good they do in keeping people's feet dry, they might be a rubbish heap. Conversely, there is no use whatsoever in issuing enough tickets to absorb the boots if the boots are not yet there to be absorbed. People will simply use the tickets to claim something else with. Or they will "save" their tickets, and invest them, so sending them back into Production and cancelling them as purchasing power. Clearly the sensible plan is to make the flow of purchasing power and the flow of goods not only equivalent in value but also *concurrent in time,*

so that when the goods appear on the market the money to claim them with is there too. And since the object of life is boots rather than money, the money flow should depend on the goods flow like a maid on her mistress and not vice versa.

Now while it is perfectly true that the boot factory's B at some time or other becomes part of other factories' A—it is irrelevant. For in following the course of B until we see it become A what have we really done? Nothing, except to leave our boot factory for some other kind of factory, a telephone or money or engine or cotton factory, there to embark on exactly the same analysis we were conducting in the boot factory. Monetarily speaking, every factory is the same, and the analysis of one is the analysis of all. If we can discover the monetary truth of our boot factory and multiply it by the number of factories in the land we shall be in possession of the monetary truth of all of them; that is, of Industry. There is nothing, of course, to prevent us from leaving our boot factory and going to a telephone factory, and from there to a stocking factory and from there to an engine factory, and so on. Except the appalling amount of time such a meander would require. We should be led from one factory to another, through thousands in all, only to discover, after exhausting them all and incidentally ourselves, what our boot factory is able to tell us in the first place; namely, that every factory, and so Industry as a whole, has its A and its B. So, though it is true that Industry's B at *some* time becomes A, yet at any given moment A is A and B is B, the two coexisting yet

separate. Money flowing as B flows, *at that moment,* as B, and as nothing else, and no amount of argument can turn it, *at that moment,* into A. When reviewing a factory over a definite period of time, therefore, we must recognize that it has its A and it has its B, each quite distinct, and must resist the impulse to say, "But, after all, B becomes A and can therefore be regarded as purchasing power," for *during the period under review* it doesn't and can't. Always there is this factor of time, and the key to the matter lies in the significance of such phrases as "at any given time" and "during any given period."

In the light of these considerations let us regard B afresh. Flowing out of our boot factory as capital expenditure to contractors, banks, insurance companies, leather merchants and the rest, it soon reaches these firms' employees and becomes the A of these factories and organizations, their managers and workmen and clerks receiving it as wages and salaries and spending it forthwith as purchasing power in the market at that time. Now note: though this money was created and set in flow in respect of *boots—no boots have appeared in the market yet*. And no boots will appear for a considerable time, six months probably being a conservative estimate of the time elapsing between capital expenditure and the appearance of the goods on behalf of which the expenditure was made. What, then, has happened during these six months to the money which was in turn the boot factory's B and other factories' A, and was loosed in the community as purchasing power during the first months? It has disappeared. Long before the six

months were up and the boots on the market, it was either spent or saved, and went either through Price or Investment back to Industry. No one in the boot factory or his right mind says: "This particular ticket was issued to me in respect of a pair of boots which will be claimable in six months' time. I will therefore put it in a drawer for that period, and then buy the boots." That this does not happen is best exemplified by what took place after the War—when vast volumes of goods, from lorries to blankets, which had been made during the War and in respect of which purchasing power has been issued very liberally indeed, yet, when offered to the consumer at low prices, encountered a stiff sales resistance and were only got rid of finally after several years of pushing and advertisement. The reason cannot have been that the community did not need or desire the goods, for the sudden descent from comparatively affluent incomes left the nation as a whole in decided need of goods of all kinds if it was to maintain its war-time standard of comfort; rather, the reason was that the purchasing power in respect of the goods had been issued months and even years previously and the community had spent it. It had quietly disappeared and gone back via Industry to the banks and been destroyed, leaving witnesses behind in the shape of gramophones and diamond rings and bits of War Loan.

At this point the reader may be tempted to comfort himself with the reflection that even if the boots aren't ready and therefore can't be bought—what of it?—gramophones and diamond rings are bought instead; and boots will eventually be bought instead of

gramophones and diamond rings. Does it matter what goods are claimed by what money so long as they *are* claimed; and taking Industry as a whole do not things pan out pretty squarely in the end? The answer is, Yes, it does matter, and No, things do not right themselves, for once again the question has to be asked, *When* were the goods bought? The comfort is vain the moment we take a gramophone factory or any other and analyze its workings *during the same period for which we had the boot factory under view*. Let this period, for simplicity's sake, be six months—any six months, every six months. It will be found that every industry during those six months exhibits precisely similar phenomena; to wit, they are all distributing a slab of purchasing power far in advance of the goods it represents, far enough at any rate for much of it to have disappeared before those goods come into the market. In other words, B, although it becomes A, does so at such a time that it is of no use in claiming the goods on account of which it was created: nor does it bear any definite relation to the goods it does succeed in claiming previously, the number of them being fortuitous. Now if every industry is behaving in this fashion during any period we like to mention, then Industry as a whole is behaving in the same fashion during every period: that is, always. *The rate of flow of Prices is always greater than the rate of flow of Purchasing Power,* and money lags behind goods chronically. Of course, by numerous devices and the assiduous interplay of its members, Industry does what it can to make things pan out pretty squarely in the end. But it cannot.

For there is no end. There is no beginning either. Industry is in ceaseless flow and cannot catch up even with its best intentions; nor ever will, until its out flow of Purchasing Power overtakes its inflow of Prices.

Inflation by B

One more major fact remains to be noted.

Suppose that there are available simultaneously 100 articles and 100 pounds or dollars. Then the price of each article, all other things being equal, will be one pound or dollar. Suppose now that five more pounds or dollars, but no more articles, make their appearance.

Then, until five more articles do make their appearance, the effect of the added five pounds or dollars will be to increase the price of each article already on the market, for its price will no longer be 100 divided into 100 = one pound or dollar, but 105 divided into 100 = something more than just one pound or dollar. Such increase in price is exactly what is happening in Industry to-day, everywhere, gradually, and all the time. As soon as B appears as premature purchasing power it raises the price of all goods on the market at that time, because at that time B is not backed by a corresponding amount of goods. It follows, therefore, that when the goods eventually make their appearance, the A issued in respect of them is loosed upon a market in which it circulates in a depreciated condition from the outset. The boot factory's B, on becoming the A of other industries, dilutes the currency, since it is not backed

by boots. In other words, B causes inflation, which may be defined not as an increase of money, but as an increase of money *accompanied by* a rise in prices; the rise in prices being due to the absence of a concurrent increase of goods. It would be a mistake to suppose that inflation is something sudden, special or temporary, or that it can be laid upon the shoulders of that general scapegoat, the War, or that it was a stunt peculiar to post-war Germany and Russia. On the contrary inflation proper has been going on for centuries, steadily and stealthily, and its main cause is B. To it is due the fact that during any appreciable period the value of the dollar or pound, say, grows less, and in this connection it is interesting to note that Falstaff could buy two gallons of sack for three eighths of a penny, that in 1730 £16 or $80 was considered a reasonable yearly salary for the Matron of a London hospital, and £20 or $100 for a Resident Medical officer; that a hundred years later these figures rose to £60 or $300 and £105 or $525 respectively; that retail prices rose in London 9.3 per cent. between 1900 and 1911; and that they have risen since then, and would have risen, war or no war.

The Sizes of A and B Compared

We may say at once that B is greater than A and that its preponderance is always increasing. It increases with the efficiency of the Machine, since the greater the Machine's efficiency the more men it displaces; and the more men displaced the less men are there in receipt of A. Also, the greater the Machine

the greater becomes B, because B is capital expenditure, expenditure on the Machine. Let us put the matter in a concrete way. Before the Machine came, suppose ten men to work at £2 or $10 a week and turn out twenty articles between them. Now these men will come very near to being able to buy their total weekly output because the bulk of its Cost is their own man-work, and although this cost reappears in price, in this case it also reappears in wages, and £20 or $100 will appear as A to buy the 20 articles and their price will be £1 or $5 each. Then enter the Machine. The same ten men probably now get at least £3 or $15 a week and can turn out not 20 but 2,000 articles, at perhaps 25 cents or a shilling each, so that their weekly output is £100 or $500 worth of articles. But despite the rise in wages the only money available is £30 or $150, which cannot possibly buy the output any longer, even though the price of each article has been reduced to 1/20 of its price when man-made. Nor is the situation eased when an improvement of process or some new invention reduces the ten men to six! Thus B is relatively always increasing, and it has been estimated that B is easily two hundred per cent. of A, and that the average plant cost is probably a hundred and fifty per cent. man-labor cost. Often B is far more than two hundred per cent. of A. For instance, it was admitted in the English Courts that a certain razor and fountain pen cost less than a shilling each to make but that with overhead charges their final cost was between twenty and thirty shillings—that B in fact, was two thousand per cent. of A.

One of the results of chronic shortage of purchasing power is that the process of selling an article becomes just as difficult, generally more difficult, than the process of making it, and reminds one of efforts to extract blood from stones. The average proportion of selling costs as distinct from manufacturing costs, is enormous, and nearly all fall under B rather than A. In the year following the Armistice, for example, more than six hundred schools of salesmanship were started in the U. S. A., and the consumption of paper for posters was doubled. In the case of many articles the advertising cost alone is as much as a third of the total cost. This is not a phenomenon of overnight. In 1912 Mr. Diblee wrote in *The Laws of Supply and Demand:* "The merchants and warehousemen of Manchester and Liverpool, not to mention the marketing organizatiuns contained in other Lancashire towns, have a greater capital employed than that required in all the manufacturing industries of the cotton trade. It is roughly true to say that nowadays it costs more to sell most articles than to make them."

High though selling costs are, there is another item of B that probably tops them—that of bank charges. The following letter from Mr. Birchenough published in *The Manchester Guardian* in 1926 gives an inkling of what happens in that quarter. "The cotton industry to-day," he writes, "is bogged in a morass from which it seems impossible to extricate it. Huge bank overdrafts and enormous loan accounts bear disastrously upon these refloated companies, and these are each year sucking from the industry mil-

lions of pounds sterling in the shape of interest and bank overdraft charges. Interest and depreciation charges in this section of the industry are about 400 per cent. higher to-day than they were before the War. These charges lift the cost of production enormously, gravely handicap producers and those who try to sell for them in the markets of the world and hang like millstones round the neck of the industry."

The Dilemma of Saving

With only A pounds or dollars to buy A + B's worth of goods with, it might be supposed that all of them would be spent to the last penny in buying as many of the goods as they could. Such however is not the case. For various reasons a considerable portion of A fails to function as purchasing power. Some of it, for instance, is saved. Driven by their instinct for security it appears that most people prefer to contemplate increased comfort in the future rather than experience it in the present. The future is rarely allowed to take care of itself. Now the point about saving is this: every penny saved and invested is a penny withdrawn from A and put back into Production, where, B being greater than A, most of it becomes B in like proportion. A being a bundle of tickets distributed to the community as the only means with which it can claim the goods it produces, it follows that if some of them are used not to claim goods with, but to cause the production of still more goods, the discrepancy between A and A + B widens, A lags

still further behind, and the spiral becomes vicious indeed.

Most people are so poor that they dare not spend: they save, and think of warm fires in the winter of their old age. Take the case of savings in England. In 1916 the amount due to depositors in the Post Office Savings Bank was £190,000,000; in 1926, £280,000,000. To depositors in the Trustee Savings Bank there was due, in 1916, £54,000,000; in 1926, £82,000,000. Building societies owed, in 1916, £64,000,000; in 1926, £166,000,000. The National Savings Association owed £475,000,000 in 1926. Into these four savings agencies alone there had accumulated by 1926, therefore, a sum of £1,003,000,000 composed exclusively of A. Nor had this sum lain idle, for these great institutes do not keep their depositors' money in a battalion of stockings, but by investing it to initiate or support enterprises designed to produce more goods. Major General Seely, as chairman of the National Savings Committee, when drawing attention to the 784,000,000 certificates which had been sold since the scheme's inception in 1916, said that the achievement of the movement was wonderful. He was right; it was. But was it beneficial? The individual may feel more secure for saving, but is Industry or the community as a whole more prosperous? Assuredly not, if we believe with Ruskin that "consumption is the crown of production; and the wealth of a nation is only to be estimated by what it consumes." Nor does the security achieved by saving bring prosperity, happiness or life; rather, it is a negative thing and implies merely

the absence of starvation, misery and death. Major General Seely added on the same occasion that the savings came "mostly from the poorer classes"—in other words, from those who wanted goods most! With such people security amounts to little more than the deprivation of present wants in the wan hope of being able to get them in the future.

The dilemma into which so unreasoned a system places us is that the man who saves injures the community by withdrawing his drop of economic blood from circulation in it, and the man who does not save probably injures himself. If everyone saved as much as he could the country would suffer from acute financial anaemia, commonly called poverty, and would not be cured by however many pattings on the back for the individualistic virtue of thrift. Conversely, the spendthrift is a social benefactor. In fact, whichever way we stand we face both ways, for if spending is a dangerous piece of improvidence for the individual, it is a boon to the community and oils Industry's wheels; and while saving may keep your own canoe afloat, at the same time it bores a tiny wormhole in the ship of state. The truth is that the problem of Industry to-day, and therefore of the financial system, is no longer the problem of production, but the problem of consumption. "That the fear of scarcity," writes Mr. Demant, "is deep-rooted and instinctive rather than rational is seen in the insistent cry for more production on the part of people who rationally know that the problem is to get the results of production sold." This fear of scarcity must be fought to a finish before people can realize

the immense real wealth of the world they live in to-day. The problem of economics therefore is to get good methods of consumption, and great quantity of consumption and in Ruskin's words, "to use everything, and to use it nobly." Saving, where each pound or dollar saved is a pound or dollar withdrawn from the consumption and put into production, does not help to solve the problem, but aggravates it. Even in the U. S. A., where of all places people tend to spend bravely, more money being saved than ever before in history, the savings in 30,000 branch banks growing from 8,400 million dollars to 18,000 million between 1912 and 1923. Add to this insurance premiums and investments, etc., and we ought not to be surprised when Mr. Jordan writing in the *Baltic-Scandinavian Trade Review* in 1925, declares that the gospel of thrift has overreached itself, and asks whether it would not be better for Industry if more were spent and less saved.

Moreover the social economic crime of saving can be indulged in by others than the individual consumer. A company in which he owns shares may save it for him, by the simple device of not distributing some of its profits. Since part of A consists of dividends, the situation as it affects the volume of A's purchasing power is precisely the same, whether in the one case a dividend is distributed and the consumer saves it by reinvestment, or in the other the company withholds the dividend from the consumer and reinvests it itself. In both cases a block of potential A is kept in Production and is never used as purchasing power for ultimate goods. All profits

not distributed as dividends but devoted instead to reserves, surpluses, additional plants and other capital payments, lessens the volume of A. And they lessen A by an amount which in a sense is a dead loss, for profits all come out of A, via Price. That is to say, if we include profits in the A + B Theorem, we find we have not A + B but A + B + X, where X represents profits, to claim with A. Now, when profits are distributed as dividends it means that the excess of Price over Cost returns to the consumer as purchasing power within a single cycle of Production, howbeit at the end of it; but when profits are not distributed as dividends it means that what the consumer has parted with in paying for profits via Price, will not return to him in that cycle of Production at all, since it has gone as B to produce more goods. Perhaps the simplest way to regard the matter is as follows: profits are potential A, liable to be distributed as dividends, bonuses or raised wages, and the point is that some of them are not so distributed but are capitalized to feed and improve the Machine and used to make more goods. That this point is worth taking into account may be judged from the fact that in 1922 the undistributed profits in the U. S. A. in all industries varied from 25 per cent. to a maximum of 75 per cent. of total profits.

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Upon the truth of the A + B Theorem rests the ultimate validity of the school of thought responsible for the New Economics, and though the sketch of it given here is necessarily only an outline, the closer examination challenged and invited leads only to the

same conclusions. Nobody has yet been successful in discrediting the Theorem, and this in spite of the undoubted fact that there are many who would like to and who have tried. On the contrary, one of the books based on it, *Credit Power and Democracy,* has been set as a text book for the Honours degree in Economics at Sydney and Harvard Universities. So if the reader finds difficulty in grasping the Theorem as here set forth or, grasping it, yet feels unable at once to agree with it, such facts as these alone surely demand that he follow the matter up in books which expound it more fully before he rejects it finally.

The following are the facts of "A + B" expressed shortly:

1. During any given period the money in any country available for spending on ultimate goods is always less than the money-value of the ultimate goods produced by that country during that period, and therefore it cannot buy all of them.

2. It does not in practice even buy as many of them as it might, some of it being used for purposes other than buying: some of it, for instance, is saved.

3. The number of goods which are unclaimable by the community producing them is always in excess of the number of goods which it can and does claim.

4. This excess is always increasing owing to improvements in the Machine and the consequent (a) increase in capital expenditure, (b) relative decrease in man-work and therefore salaries and wages.

5. This excess can only be claimed finally either by export or the creation of fresh streams of credit, or both.

6. All these things are bound to happen in any system in which Price includes total Costs.

CHAPTER NINE

WAR, TYRANNY, AND WASTE

In the last chapter we mentioned in passing that the System saves itself from breakdown in two ways: by the progressive creation of fresh bank credit, and by the development of export trade. Each of these expedients has its own grave result. The one places in the hands of Finance an unwarranted power beside which national governments appear more and more as assemblies of clerks, while the other—export trade—sooner or later leads directly to war. A third result of the System is Sabotage, or wanton, deliberate waste. This arises not so much from society's method of accountancy or price-fixing, as from its obedience to the Pauline Rule, which, as we saw in Part One, was suitable only to an age of scarcity—the Rule being that a man should get money tickets only in return for man-work; with the obvious result that instead of scientific discoveries being welcomed as liberators of man from his menialities, they are feared, shelved, hated; and spokes are put in the wheel of progress, lest by turning too efficiently it deprive men of bread. The dogma of the Christian religion is a source of comfort to many, and those sufficiently interested are satisfied by it; for them there is the Trinity of the Father, the Son, and the

Holy Ghost. But for those chiefly interested in how to get what they consider the best out of life for themselves and their wives and children and who are anxious only to leave a little more happiness around them than they found, there is another trinity, which, though it cannot satisfy or comfort them, is bound to claim their attention, and its three persons are War, Tyranny, and Waste. When there is War there is Tyranny, and when there is not War there is Tyranny, and always there is Waste. No nation or civilization, however confident, moral and hardworking, can survive an almost Athanasian obeisance to such a trinity for long; nor, as long as he tolerates such a god, can man say with Shakespeare's Beatrice that at his birth a star danced. Unless it was a devil dance.

War

Ask the visitors from Mars and they will say at once that the right purpose of export trade can only be to exchange a surplus or surfeit of homemade goods for the comparatively few things which the home consumer wants but cannot produce at home. The accent here is on the word *surplus*. This means that homemade goods are made primarily to meet the wants of the home consumer, and that only after he has been supplied fully shall a further number of goods, a surplus, be made and exported. Under the present system, however, export trade means much more than this. For it is the outlet or valve through which $100 worth of goods unclaimable at home through the absence there of $100, escapes to be claimed by the foreigner. And it is the chief outlet of these goods. Consequently export trade for B's sake is much more than important or desirable: it is vital, since the manufacturer can get back his full costs only when these goods are claimed—and no one at home can claim them. So that even if we could produce everything we wanted at home and were entirely self supporting, export trade would still be vital. And vital it will remain for just as long as A is called upon to buy A + B; in other words, always, or until we change the system. Moreover, export trade is becoming *increasingly* vital. In this way. The more the machine progresses, the more man-work diminishes; which results in less wages being distributed; which results in a shrinkage of the home market's effective demand; which means, if the goods are to be sold at all (and they must be), that the foreign market must be made to expand correspondingly. But the foreign market is not indefinitely expansible. On the contrary it is relatively shrinking: since, firstly, the tendency of each nation is to go a-manufacturing on its own as fast as it can, so that the world as a whole is resolving itself into an industrialized rather than a ruralized state, and secondly, its capacity to produce increases faster than its population. It follows, therefore, that the foreign market must become congested more and more until—something happens! For the situation applies to every modern manufacturing nation simultaneously and all the time. We are thus led to two conclusions: namely, the curious one that every triumph of scientific invention demands an expansion of the foreign

trade, and the fateful one that the right to dispose of goods in the foreign market's last corner must finally be decided by force or its equivalent. In the light of these brief considerations we can appreciate better perhaps the periodic utterances of responsible Cabinet Ministers. Thus when Mr. Kellaway, in charge of the British Overseas Trade Department, says, "Unless we can sell in foreign markets we are on the straight road to national suicide;" and Sir Philip Cunliffe Lister, as President of the British Board of Trade, says, "The vital problem is the problem of markets, the restoration of old markets, but, still more, the development of new markets"—we know that these gentlemen are not giving vent to mere parliamentary blather but are speaking the simple unpleasant truth. We are at liberty of course to suspect them of speaking better than they know, but the fact remains that the subject of their remarks is a thing so vital in our crazy arrangement that it offers the choice literally between life and death, where life is a victorious war and death a hungry chaos. Beside the paramount need of export the needs of the home consumer slink by disregarded, and glad of crumbs. In fact, the logical outcome of the present system, as far as export trade is concerned, would be a bootmaker's son going about either bootless or ill-shod, while savages dance round fires in the African jungle in the best calf skin brogues and patent leather pumps.

Consider, now, every country is doing the same thing. They have to, for their systems are the same. With gradually increasing momentum they are all

converging upon a single object, one moreover which is gradually diminishing. To abolish war beyond a peradventure, therefore, one of two things would have to happen. Either a New Atlantis would very obligingly have to appear as required, duly inhabited by goodsless people, and their numbers depending on the increase in the world's productivity; or goods would have to be exported extra-terrestrially—to Mars, for instance. Neither of these things being likely to come about, there remains, not as a solution but merely as a logical result, the prospect of war, and it seems impossible that any current force can avert it. Certainly the League of Nations can't. For the League, stripped of its pretensions, is nothing but a new Lord Queensberry busy with rules for a world's boxing championship, or a manager who manages all the entrants, controlling the training, dieting, and ultimately the purse, not for a single competitor but for all the rivals en bloc. It is all very pretty, and a piece of organization it undoubtedly saves some overlapping, etc., but the question of whether it is advisable or possible to abolish the boxing championship never seriously arises. And it will all proceed prettily and piously until one or other of the boxers is challenged covertly by circumstances. Then, if he is feeling fit, he will firmly refuse to be managed any longer. The League means well but it cannot do well, because the conditions, the system, under which it works dooms its efforts to impotence from the outset. The League exhorts, but pious words fall on deaf ears if hunger and distress are thought to be

imminent. What is needed first is a change of system; a change of heart will follow.

The right to deposit goods in other countries is a strange motive for war, but strange or not it will remain a motive, under the present system, until the lion lies down with the lamb and the nations say to each other, "Thy need is greater than mine." Dr. Soddy, Regius Professor of Chemistry at Oxford, has noted the curiousness of this change in the causes of war. "No doubt behind the alleged motives of national pride and honor, racial and religious antipathies, external dangers, and the sedulous fostering in consequence of human pugnacity and quarrelsomeness, which produce war, economic causes of 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."

Disillusioned and sad, the world is already apprehensive of further wars, even now before the last one's dead lie easily in their graves or nature's green properly hides its scars. And at its helplessness be-

fore the approaching sword the world hangs its head in shame, and talks of other things, or shuts its eyes and waits . . . and waits, mumbling the while some far-off catch, about God being in His Heaven and all right with the world. We dislike being reminded of our hope that the last war was to be the War to End War, because we know now that it wasn't. Our hope was never realized. Indeed, as things are, it could not be. Yet in 1918 harsh things were thought of those who talked about the Next War; they were considered traitors to the aims of the war then in hand, or were thought to be just joking. Always practical and recuperative, however, we bounce up smiling and feel that if we cannot stop the next war we can at least prepare to win it. Thus a member of the British Parliament asks in the House of Commons in 1926 that, having regard to the developments of gas warfare which have taken place since 1918, instruction in the use of respirators shall be given in all schools. Why not? One can imagine the school time-table: 8 o'clock, Prayers; 8:05 Gas Drill. . . . The following is from an issue of the *Chemical Age* in the same year: "Mr. H. Coonley has been appointed chief of the First Chemical Warfare Procurement District, and will undertake the mobilization of industrial plants in his district for the manufacture of gas masks and chemical warfare materials at short notice. There are four similar organizations having headquarters at New York, Pittsburg, Chicago, and San Francisco." In 1926, too, a newspaper comforts its readers with the assurance that "the organization of gas-fighting battalions of

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helmeted and masked men carrying spraying appliances with which to dissipate the gas clouds in the streets, and the planning of machinery for the speedy evacuation of a large proportion of the urban population to the countryside, are also being studied." In 1927 the French War Ministry announced that liquid-flame throwing squads would be a regular feature of the French army, training to begin in February at the Chalons School. While all countries are preparing such things, they are also preparing to say when the time comes, like naughty schoolboys, "Well, you began it." Yet what would you? The system compels: we are only being wise in our generation.

At the same time men are not at the moment enamored of war, and Bellona's wooing strikes us as a little strident and inopportune. The world is still war-weary. Then, too, sweet reasonableness, part of that something which we hope divides us from the animals, makes us feel that war should not, after all, be the ultimate necessity it is at present. Men soon found out what modern war was really made of, and the more articulate among them told the rest, showing something of its hollow horror, and doing the easy job of pricking the bubble of its supposed glory. For war as we remember it was in most ways a drab, unpleasant, dirty thing, and though no doubt it kept the living fit and in spirits, and though the distresses of Peace may be hardly borne, the chorus that asks What Price Glory? swells. So, though knowing that the present economic system must eventually end in war, we adopt devices to avoid reaching that end

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for as long as possible. Typical of such is the device by which the nations agree to ration their exports of this and that, in which light such a passage as the following should be regarded. "The revival of the Iron Railway Manufacturers' Association for the control of export trade throughout the world was accomplished on March 11 (1926), and negotiations are already going forward to apportion the various export markets of the world among the six member countries. These are said to be the United States, Great Britain, France, Germany, Belgium and Luxembourg . . . it was reported that American industry would work through Great Britain, as membership might be considered a violation of the trust laws of the United States. . . . England would not be entitled to the 45 per cent. of the world's export market which the others are said to be ready to accord her, and as a result half of this quota is said to be for the

American interests. . . . " This and similar devices merely postpone the evil day and do not remove its cause. They but make the best of a bad job, As in a limitation of armaments, the cure is palliative, not radical.

The causes of modern war tend to become more and more prosaic, economic and commercial. The hochs, hurrahs and hallelujahs are but sauce to make it appetizing enough for ordinary men who have no quarrel in their hearts to become cannon fodder with alacrity and zest. When the small councils of a country are compelled by the economic system to will war and consider themselves ready to wage it, the rest follows. Insults to national honor can easily be

manufactured without suspicion, or they can be grown from trivial happenings as easily as flowers from a penny packet of seeds, and much more quickly, until, fanned and exploited through a subservient Press, a nation goes suitably mad. Without some such artificial manure it is ridiculous to suppose that the murder of a single archduke could burgeon into so red a blossom as the licensed murder and maiming of millions of men who had never so much as had the pleasure or otherwise of his acquaintance. The murder at Sarajevo was admittedly only a cue and never pretended to be a cause. Economic and no longer religious or suicidal, war grows from a state of things such as is pictured in the following:

"At the moment it looks as though the Standard Oil interests, operating through France and Turkey, had failed to retain the region about Mosul. The Anglo Persian Oil Company, operating through Great Britain and the League of Nations, has decided to award Mosul to lrak, which means that the Dutch Shell Oil Company, and not the Standard Oil Company gets Mosul. Turkey is making threats that she will fight to keep Mosul." Or in this: "The autonomy that Paris and Madrid have always professed themselves prepared to grant to the Riff tribes has expressly excluded the right to dispose of mining concessions. . . . Riff concession-hunting seems still destined to cause international dissensions, just as it has accounted during the last six months for the whole difficulty on both sides in making peace in the Riff."

The trouble, though, is that it is very difficult to

whip nations into a frenzy over gasoline. Though valuable, gasoline is considered unromantic. Something further must be done. A flag must be unfurled, a trumpet sounded, and to dope their doubt men must be taught oral mascots to say with their Aves and Paternosters such as, La Patrie, Der Tag, For King and Country, a Berlin, Gott strafe England, and so on. With these the nations can be whipped into a frenzy over anything, and thus injected with the blood lust germ they will fight with tenacity and enthusiasm. But they will be fighting for gasoline for all that. It is for this reason that nations are not told what it is that they are really fighting for; for this reason, too, their leaders' language is always couched in metaphors drawn from the days when war had in it a preponderant element of personal bravery, of splendid trappings, and, if you will, of glory. Thus the late Mr. Asquith, as he then was, kept telling the world that England would never sheathe her sword until such and such a time, though none knew better than he that she had never drawn so antiquated a weapon. But the metaphor kept men at battle pitch more than the reality would have done, and had the Prime Minister stated that England would continue to cut barbed wire and unscrew cylinders of chlorine until such and such a time, men might have asked themselves with even greater insistence than they did, the question What Price Glory? And to have found the full answer before they had beaten their man would have been disastrous.

And yet—and yet! Economically, at least, war is a rosy time. Ask the men who fought it. If they

are honest they will tell you that over and above their wounds and personal griefs and losses they had the time of their lives. And they had. Taking no thought of the morrow, theirs was the blessed state of the sparrows and the lilies of the field. Physical insecurity, even unto death, was a trifle compared to the boon of economic security which descended on whole nations with gratifying speed. The machine's wheels turned as they had never been allowed to turn before; money, economic blood, flowed at last rightfully and in proportion to the country's need of goods; all shared in the general plenty resulting; we were all brothers in sudden wealth; the more hardships we underwent the healthier we became. And we had an aim in common which lasted for years. What is our aim now? Apparently to revert to, and maintain, the conditions which brought the War about. Yes, healthy, purposeful, corporate, adventurous, carefree and keen, we had the time of our lives. Of course only the living can speak. But one can hardly suppose that the dead would prefer, say, the Stock Exchange to Heaven, or a probably cancerous old age of enforced thrift to a short agony in what they believed to be a glorious cause. Their duty, as they saw it, is done; while for us who survive the one thing certain is that it was not Peace they left behind them. Her they took with them. And we, knowing there is no peace, all we can do is to cry for it in agony, knowing we are crying for the moon. For peace is economic war, and war economic peace. When M. Caillaux said, "When the bugles sounded 'Cease fire,' peace was not made; papers were signed,

and that was all," he probably spoke more truly than he knew. Again, what a tale untold lies behind the dry figures of the Registrar-General for Great Britain telling us that suicides from poisonous gases amounted during the year of war, 1917, to 165, and during the year of peace, 1926, to 943. To what a pass must the present system have come when it is possible to compare its ordinary workings with the horror and waste of war, and to feel that in some respects they are worsted in the comparison! As I write there lies before me a magazine article, perfectly serious, entitled *Gentlemen Prefer Wars*. If so, and one inclines to think they do, it is surely because they have before them only a choice between two evils, and the evil of the peace seems to them the more formidable of the two.

The desire for real peace is in all hearts; or if it isn't, we must at least believe that it can be engendered. But that is quite another matter, for real peace is not yet on the market. The peoples may not desire to quarrel with one another, but nevertheless a quarrel with each other they undoubtedly have, and must have, for there is a quarrel implicit in the very conditions which the System imposes on them and under which they are seemingly content to live.

The Power of Finance

Finance gets its power from the fact that it alone supplies Industry with the money it needs to initiate and conduct its enterprises. It follows, then, if Finance controls Industry's supply of money that it

also controls Industry's supply of goods, and so anyone needing those goods: in other words, everyone. In short, Finance holds the purse strings and pays the piper: and we dance. When we take pleasure in the dance, so that we enjoy this and that and have enough to eat and to spare, it does not mean that Finance is not in ultimate control, but only that the tyranny is benevolent. Good as well as bad, supply as well as deprivation, is *pace* Finance, and the tyranny is not less real for being in many cases benevolent. A man may enjoy the principal advanced him by a money-lender but whatever his enjoyment he remains in debt.

Finance exercises all the functions of an ordinary money-lender, and Industry is its chief client. It seems extraordinary that so enormous, widespread and powerful a thing as Industry should be in the grip of anything at all. One would expect it to stand on its own feet, dictating and itself playing the tyrant. Nothing could be further from the truth, however, and the sight of Industry at the mercy of Finance reminds one of nothing so much as the slow and somewhat awful passage of a full-sized hen down a snake's throat, feathers and all, whole. You cannot believe the throat capable of swallowing the hen; the thing is obviously impossible. And then you see it happen. Similarly, you cannot believe that the control of Industry by Finance is so complete and thorough-going until you investigate the matter and find from the nature of the system, that it must be so.

The power of Finance is thus that of a monopoly. And when we consider that the monopoly is of some-

thing which everybody must have, and is eager for, we ought not to be surprised however large Finance's power turns out to be. In fact, the difficulty in dealing with this matter is not to understate it. And then again, if you could state it adequately the danger would be that no one would believe you. Thus when Dr. Brailsford writes: "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 modern world"—we give him credit for turning out some pretty sentences of brisk assertion, and pass on. That what Dr. Brailsford says is literally true seldom enters anyone's head. If it is difficult to estimate Finance's power correctly it is probably impossible to overstate it, so wide and subtle are its ramifications, and the extracts that follow do not pretend to be a survey or description of the incalculable creature, on whose hide superlatives fall innocuous, but only a few of the spots as it were on its vast body. By noting these we may get an inkling of the Colossus' size. It may also be pointed out that the excerpts are taken not, as might be supposed from their contents, from the speeches of Socialists or the columns of the Red Press but, on the contrary, from the western world's most reputable Press and from the pronouncements of responsible men actively engaged in supporting the present order. If in addition we recall the facts disclosed in the first chapter of Part Two, when the will to power was discussed,

we may begin to realize faintly the calibre of the web in which all of us are unconsciously enmeshed.

Finance Is International

Finance knows no national boundaries. Why should it? It is not responsible to nations, governments, or electorates, International, it is responsible to nothing but itself.

In 1925 the Bulletin of the National City Company contained the following:

"Under the headlines, 'We are governed by foreign bankers,' the Belgian Right Press violently criticized all those concerned in the Belgian loan negotiations with the United States for their action, which has just been revealed, in promising to effect a reduction of 150,000,000 francs in the Budget. If it were so, said M. Jaspar, the only conclusion to be drawn was that Belgium was under the rule of American and English financiers who were able to dictate their conditions. 'What then, is the use of the Belgian Parliament?' asked M. Jaspar. M. Vandervelde replied that the facts were substantially correct although the figure was not as stated. The Government must submit to the demands of foreign capitalists in order to obtain the stabilization of the franc."

The important words here are "which has just been revealed." Revelation of the conditions attaching to loans is a rare phenomenon, as rare as it is inconvenient. But non-publication of them is no reason for supposing that they don't attach. Where they do, they are nothing more nor less than foreign fingers in the pie of domestic representative government. M. Jaspar found them indigestible. And

since a certain number of Belgians lost their jobs owing to the Government having to spend less money on some of its public services, to fulfill the conditions imposed on it, he was presumably speaking for them too. It is not difficult to perceive who are the real kings and masters of such.

Finance impinges on foreign religions as well as on foreign governments, and Wall Street and the Vatican embrace.

The *Golden Age,* a journal of Brooklyn, N. Y., reported in February, 1926, that the Catholic Church of Bavaria was borrowing about £6,000,000 from New York bankers and that Cardinal Hayes of New York had arranged for a large loan to the Vatican.

Further to the international aspect of Finance, the would-be unobtrusive visits of Permanent Prime Ministers like Mr. Norman to help settle the Englishman's fate in Washington and Wall Street, should not be passed over. The organization to carry out the settlement is developing.

Of the twelve appointments made to the Bank of England in April, 1926, eight were specifically to represent the U. S. A., and four to represent Germany.

With the remaining twelve directors to represent England, the Bank's directorate may be said to be the Old World's permanent Cabinet, under its King, the Governor.

The *Wall Street Journal* wrote in March, 1927: "He (Mr. Norman), more than other bankers, has inspired the policy of banks of issue in a dozen countries. No foreign issue appears in the London market without his

approval. His personal influence is such that he has variously been called 'a crusader' and 'the Currency Dictator of Europe.' "

The Centralization of Its Control

While Finance locks and twines internationally the tendency within each nation is to centralize, absorb and amalgamate. In England the apex is the Bank of England, in the U. S. A. the Federal Reserve Board, in Germany the Reichsbank, and from these radiate downwards lesser financial institutions and banks, all of them subservient to their respective apex. By absorption and amalgamation the number of these decreases as their collective bulk increases. The Bank of England has for instance, obedient daughters, commonly called the Big Five. They are strapping wenches but there are only five of them. Yet they permeate the country.

According to the *Wall Street Journal* of August 26, 1926, "England's 'Big Five' banks are extending so fast that 100 branch banks are annually built to every new church. Property owned by these banks is estimated to have value of over £50,000,000, one new branch having been opened each week by each of the five banks in the past year."

In 1926 there were roughly 8,600 Branch Banks. These are divided more or less equally among the Five, the Midland Bank, for instance (incidentally from our point of view the most English in its Policy of all the Five), owning something more than 1,500 branches.

According to figures published in the summer of 1927 the Big Five opened between them a new branch every

day; and even so, it is stated, the "furious building of these extensions is barely keeping pace with the increase in banking business."

Generally speaking banks occupy corner sites all over the country. These being the most expensive, the fact is eloquent. The tendency to amalgamate and control from a few giant centres can be traced everywhere.

Mr. J. W. Robson writing in the *Western Producer* in March, 1925, says:

"By interlocking directorate the Bank of Montreal, the Bank of Commerce, and the Royal Bank, across whose counters pass 75 per cent. of the deposits of the people of Canada, control the industrial system of Canada."

Its Omnivoracity

Finance acquires more than corner sites and deposits, and finds even the common sausage to its taste.

"A sausage business in New York City, which was started by Adolf Gobel 35 years ago as a personal enterprise, in which he made his goods at home and peddled them in a basket on his arm, and which has come to have sales aggregating $8,000,000 a year, will pass into the hands of a group of Wall Street bankers under an agreement just reached with the *heirs*."—*Christian Science Monitor,* August 20, 1926.

Its Secrecy

Secrecy is obviously essential to the successful and undisturbed wielding of such vast and permeating

power. We saw earlier how Mr. Norman and Mr. Strong spent most of their would-be holiday on the Riviera in trying to secure privacy.

Mr. Norman, according to the *Wall Street Journal,* "Keeps his name out of the Press as much as possible, rarely appears in public, and goes to extraordinary length to hide his movements."

This desire for secrecy is not an accidental characteristic of Mr. Norman's so much as one typical of Finance in general. Thus, as Mr. G. K. Chesterton puts it:

"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?"

The way Mr. Ford referred to this "veiled prophet" in an interview with Boston newspaper men is described by the *Commercial and Financial Chronicle* of May 22, 1926:

"Mr. Ford said, 'The British Strike was put over; but British labor 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,' he said."

The late President Woodrow Wilson, too, as quoted by Mr. M. N. Campbell in the Canadian House of Commons, laid stress upon the combination of secrecy and power in Finance.

According to him:

"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 organized, 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."

In his book *T he New Freedom* the late President becomes more explicit:

"We have been dreading all along the time when the combined power of high finance would be greater than the power of the Government. Have we come to a time when the President of the United States, or any other man, who wishes to be President, must doff his cap in the presence of this high finance and say, 'You are our inevitable master, but we will see how we can make the best of it'?"

Its Supremacy

When Finance comes into conflict with Governments or with Industry the odds are so heavy against the latter that a fight is rarely put up. The strength of Finance lies largely in the fact that it is permanent and, unlike Governments, not subject to the vagaries of vox populi or to investigation of any kind in the public glare. Its ascendancy over Industry is taken for granted by both sides as a matter of course, Finance not troubling to mince its words when it has occasion to rebuke Industry. The result of these unequal odds puts Finance in a position to treat Governments like sets of temporary clerks and Industry as a wayward child, and not unnaturally it takes advantage of this unique position.

Mr. Lloyd George commented thus on the Dawes Reparations Pact as follows:

"Agreement would never have been reached without the brusque and brutal intervention of international bankers. They 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 is the joint ukase of King Dollar and King Sterling."

Mr. F. C. Clegg, as President of the Bank Officers' Guild, said early in 1926:

"We are on the threshold of another banking revolution. This revolution will be caused partly by the amalgamation and absorption of banks, and largely by the fact that industry is losing its position as the pivot of our social organization and that position is being taken by finance."

Mr. Keppel, as Administrative Commissioner for the U. S. A. to the International Chamber of Commerce, was reported in 1925 as saying:

"The most significant fact is the independence of the Chamber from Government control or Government in-

fluence. . . . Probably the last field in which it (the Chamber) 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."

In 1912 the Pujo Committee found that the Morgan group of financiers with its allies controlled at least a third of the economic activities in the U. S. A. In cross examination the late Mr. J. P. Morgan admitted this, but protested that his power was never abused.

Mr. A. Dunbar, as President of the Clearing House Section at the Convention of American Bankers' Association in 1926, said:

"We bankers hold the key to the credit situation. . . . It must be made plain to production that America cannot live to-day on to-morrow's income and maintain its economic status."

(Incidentally we see that Mr. Dunbar clearly marks the distinction between bankers and production, between Finance and Industry. This is important, for there is perhaps no greater service which ordinary men and women can perform to-day than to stress this distinction, for by so doing the real protagonists in the fight are revealed, and not those taking part in the essentially sham one staged to divert our attention. Finance would have it thought that the great fight is Capital v. Labor whereas it really is *Industry [Capital PLUS Labor] versus Finance.)*

Without a By-Your-Leave

Decisions made by Finance are carried out by henchman Governments who possess not the semblance of a popular mandate for them, though they

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may have the farthest reaching effects on every member of the community. The post-war case of deflation, upon which no election was held, or is ever likely to be held, is a glaring example. In 1920 Mr. Chamberlain announced in the British House of Commons that the Government (he really meant the Federal Reserve Board and the Bank of England) had "set its heart on deflating the currency." As a result there set in concurrently in Great Britain, the U. S. A., and Canada, the deflation which according to some caused more misery and suffering, and in the U. S. A. probably more actual deaths, than the War. The post-war prosperity prevailing up till then turned into a depression, prices fell abnormally, millions of pounds' worth of orders were cancelled, works were closed or put on short time, unemployment and bankruptcies teemed. In Great Britain the unemployed totalled 2,000,000; and nearly 6,000,000 in the U. S. A., where the Comptroller of the Currency confessed publicly that the deflation had cost Industry more than the U. S. A. had spent on the War, and where by 1921 trade was its lowest for twenty years. The number of business failures rose in two years from 3 per cent. to 14, and conditions in general became so ominous that President Harding made representations to the bankers, and deflation was stopped. In Canada the deflation resulted in the ruin of tens of thousands of farmers, business men, and manufacturers, and was described in the Canadian House of Commons as having set the clock of the country's progress back for a generation. Yet did any of those affected have any say in the matter?

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Did those forced into liquidation or unemployment have any chance of registering previous approval or disapproval of the policy responsible for these disasters? As with deflation so with the return of the Gold Standard. Finance ordered the return, and Governments executed it, the only people doing nothing (except suffer from the result) being the individual consumers whom it chiefly affected. The ballot box is not used for matters of the purse.

An Individual's Power

Next, let us glance at some of Mr. Norman's unostentatious activities in Threadneedle street. Describing the wide powers he possesses in determining the course of British credit, the *Wall Street Journal* of March 11, 1927, remarks:

"From the time he entered office Mr. Norman set out to re-establish approved proportions between gold and credit at the Bank of England. He was with Mr. Baldwin in America when he reached the settlement of Britain's debts. It was evident then that Mr. Norman regarded American support in returning to gold and maintaining the standard as more important than the sacrifices in debt settlement. His critics say he had a hand in making the return to gold too rapid, and that much hardship to export trade and unemployment could have been avoided had the transition been made more slowly—if at all. . . .

"The extent of his powers well makes him the currency dictator of Europe. He insisted that Poland, Greece, and other countries maintain gold deposits at the Bank of England in order to get credit accommodation. He berated the Governor of the Austrian Bank a couple of

years ago for Austria's failing to make administrative economics. He blocked a Latvian loan because the city of Riga had not lived up to its obligations.

"A most effective weapon which Mr. Norman wields is his power to restrict foreign issues in the London market. The embargo on foreign loans was formally withdrawn in 1925. Actually, however, the Bank of England still passes on foreign loans before issue in London. So close are the credit relations of heads of financial houses with the Bank of England that they would not think of bringing out a foreign loan where the Bank disapproved. One of the smaller houses tried it in connection with some Dutch financing a couple of years ago. But the ways in which the Bank was able to hamper its dealings discouraged others from repeating the attempt.

"Empire borrowing, especially that of Australian states, has been closely regulated by the Bank of England. . . . Governments which refused to return to the Gold Standard and to fall into line with the issue policy of the Bank of England, found the London market closed to them."

And again: "He runs his bank and the British Treasury as well. He gives no interviews. He leaves the British financial Press wholly in the dark as to his plans and ideas."

Mr. Norman's power is paralleled by that of a few other people, the President of the Federal Reserve Board, for instance, and Dr. Schacht of the Reichsbank, and in lesser degree perhaps by that of the heads of various financial houses whom it would be impolitic to specify.

* * *

Not that it is necessary to impugn the honesty and good intentions of such men in order to discredit the system by which they wield a money monopoly. They may be good men and the system be a bad system simultaneously. Yet the nature of their despotic activities cannot very well be conducive to the finer virtues, and we shall probably not go very far wrong if we say of them as Goethe said of Napoleon, that they "went forth to seek Virtue, but, since she was not to be found, they got Power." Even so we shall be erring on the optimistic side, for as Major Douglas exclaimed: "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."

The question at the moment, however, is not whether the world's handful of masters use or abuse their power but whether they should possess it.

Sabotage

One of the outstanding features of Industry to-day, Sabotage may be defined as any act which prevents or discourages production or destroys things already produced; in short, waste, active and passive. Though obviously an unnatural phenomenon, the disease persists wantonly, and is indeed inevitable at present because the system, finding that the distribution of the present actual production taxes its sales ingenuity to the limit, is only too glad to adopt devices which shall prevent the amount of production potentially

possible from ever taking place. Such devices, acting as a damper on Industry or as its bonfire, prevent it collapsing from glut.

In fact, sabotage is one of the logical results of the economic nightmare Through the Looking Glass in which we move, for the bulk of production can be got rid of only by the two ways mentioned, fresh credit and export, and Industry not unwisely declines to lean without limit on either of them; knowing on the one hand that its indebtedness to Finance grows deeper and deeper, and on the other that the world's export market grows smaller and smaller. Industry is thus confronted with a choice between three unsavory alternatives: export or the pursuit of an ever-diminishing target; fresh borrowing, or an increase in its subservience to Finance; and sabotage, by which it either refuses to produce all it could or destroys much of what it has produced. Considering the nature of the first two, there can be small wonder that the third alternative is practised on a staggering scale; and this in spite of the fact that there are always people clamoring for more goods.

Sabotage has two aspects, negative and positive, or passive and active. That is, Industry may refuse to use a new tool as well as destroy something already produced by an existing one. About negative sabotage we know comparatively little, however, unused inventions being privily shelved and hidden. The details of their possibilities leak out only once in a while in ugly rumors. Once out, of course, they are generally important enough to be recorded, such as the case given by Mr. Cousens. Describing how combines and trusts do their best to retard or at least control new inventions, he remarks: "American oil interests have retarded the investigation of fuel alcohol. English oil interests, so it is said, have smothered an admirable substitute for petrol derived from paraffin. The United States Steel Corporation frowned on scientific management, not for its disadvantages but for its advantages." And among the instances of negative sabotage we must count, too, all ca' canny methods of labor, tariffs, short supply, and the efforts of trade unions to hinder the supplanting of man-work by machine-work where the latter is considered the more efficient.

With positive sabotage, on the other hand, all is open and above board and nothing privily stowed away. Driven by the system, Governments themselves sponsor gigantic acts of criminal destruction without turning a hair. The acts are criminal because the goods are wanted. Men, women and children the world over have a perpetual Real Demand for them: but they cannot turn it into Effective Demand. Which is as much as to say that goods have to be destroyed simply because the economic system is so faulty, so unscientific and haphazard, so unrelated to facts, that it fails to distribute money tickets as and when and where they are required, fails to connect Real Demand with Real Supply or Consumption with Production; though this, as we saw, was Finance's one and only proper function. Just imagine the outcry if a Postmaster General informed his public that he could accept only so many letters for post because, although he had plenty of mail boxes

and mail bags and postmen and sorters and mail vans, he only had so many stamps to distribute.

The following instances are typical of the sabotage that is going on everywhere and always; and, which, incidentally, is increasing roughly in proportion to the increase in the Machine's capacity:

(1) On December 8, 1926, the Egyptian Chamber of Deputies passed a law by a large majority limiting the cotton acreage for three years to a third of every plantation.

(2) In 1926, Mr. C. A. Fisk, President of the Texas State Bankers' Association, said that Texas was taking the lead in an effort to curtail the cotton crop in 1927. And why? "Thereby to strengthen the cotton market." And "bankers," the report continued, "are expected to exert considerable influence in this direction since they hold the whip hand when it comes to loans."

(3) The Cuban cane-growers in 1926 recommended the President of Cuba to limit 1927's sugar crop to 4,500,000 tons.

(4) The restriction of rubber under the familiar Stevenson scheme is similar.

(5) As is also the policy of the Indian Tea Association.

(6) We saw previously what happened to that favorite dish of the French middle-classes, tripe, and how thousands of pounds of it were destroyed daily at Les Halles.

(7) "There is such a glut in the French bean and scarlet runner that they cannot even be given away! They are being burnt at Covent Garden, or where they cannot be burnt are being thrown away upon the refuse dump. A representative of the *Morning Post* was offered 60 sacks of beans, each of 40 lbs., the pitiful residue of 600

sacks which one grower had thrown away for want of a market at any price. Threepence a sack was what those which could be sold were fetching; a bag of 20 cabbages brought a shilling; and 12 lbs. of tomatoes 2/6."—*Morning Post,* September 14, 1926.

One seems to remember a great number of people near Covent Garden who don't look exactly overfed. Where were their money tickets that day? Or any day?

(8) We all know about fish being thrown back into the sea so that no one should be able to buy a meal at a low price.

(9) In the summer of 1926, Mr. A. S. Wade, City Editor of the London *Daily News,* wrote: "In France, a few days ago, fruits and vegetables were thrown away to keep down supplies and to keep up prices."

(10) At the end of 1926, Mr. Hoover of the U. S. A. was quoted by the *Manufacturer's Record* as saying:

"There has now been effected a combination between the French and German potash producers by which practically all of the effective world potash is now under one control. In establishing that control, the output of the various potash mines in France and Germany has been limited. Some mines have been suspended and indemnities are paid to the suspended mines out of the general returns of the potash syndicate."

(11) Nearly 2,000,000 acres of good English arable soil reverted to pasturage between 1919 and 1923.

(12) In 1925, Iowa was blessed with one of the biggest maize crops in her history. But Iowa considered it a curse, for according to *The London Times* she was "threatened with financial catastrophe by the bountifulness of nature," and had to appeal to the Government for help. A conference was held by farmers and bankers presided over by the Secretary for Agriculture, and as a result of it financial loans were made to the farmers

which enabled them to "withhold their maize from the market indefinitely."

Producers . . . Banks . . . Governments . . . where is the Consumer?

(13) Commenting on the cotton crop of 1926 Mr. Wade wrote: "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 organizing 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 from 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."

* * *

In 1928 a world conference assembled at Havre to deal with the rat problem, and no doubt every delegate present regarded the rat as a menace and a scourge. Yet, to such passes and expediences does the system drive men that a resolution would have been not unreasonable that called, not for the destruction of rats, but for their protection and the institution of a close season. Logically, indeed, rats should be held as sacred as the cow in India since, as efficient agents of Sabotage, they help to keep the economic structure from collapse. There is no material difference between a government forbidding an acre to be sown on the one hand, and on the other, sowing it and giving the harvest to Saint Rat. Again, if the French rat had access to fruit and vegetables in their

early stages Frenchmen would at least be saved the trouble of throwing them when fully developed into the Seine.

The reader is entitled to regard this plea for the canonization of the rat as a *reductio ad absurdum,* but in that case he should realize that the economic system, as the above thirteen examples testify, has itself already touched precisely the same absurdity.

PART III

THE REMEDY OUTLINED

"We go to work to get the cash to buy
the food to get the strength to go to
work to get the cash to buy the food
to get the strength to go to work. . . ."
UPTON SINCLAIR

CHAPTER TEN

THE PROPOSALS

The main proposals of the New Economics can be put in simple language as follows: It is proposed:

Section One—Price

(a) That, during any given period the money in the hands of the community shall be sufficient to buy the ultimate goods produced by the community during that period.

(b) That, to this end, the Price of these goods shall be less than their Cost.

(c) That the Government shall keep a National Credit Account.

(d) That the Price of the said goods shall bear the same ratio to their Cost as the Total National Consumption bears to the Total National Production.

Price: Cost = Total National Consumption: Total National Production.

$$\therefore \text{Price} = \text{Cost x} \frac{\text{Total National Consumption}}{\text{Total National Production}}$$

N. B.—Total National Consumption = Ultimate Goods consumed + Capital Depreciation + Exports.

Total National Production = Ultimate Goods produced + Capital Appreciation + Imports.

(e) That, the Price Index

$$\frac{\text{(Total National Consumption)}}{\text{(Total National Production)}}$$

shall be published by the Government at fixed intervals.

(f) That, the Price of Exports shall be what they will fetch.

Section Two—The National Dividend

(g) That, the difference between Price and Cost shall be made up to the Producer by an imbursement from the community.

(h) That, this imbursement shall be made through the Government Department appointed to administer the community's financial affairs: namely, the Treasury.

(i) That, this imbursement shall be regarded as a National Dividend payable in virtue of the addition to the community's Real Wealth brought about by not only the production but also the consumption of the ultimate goods concerned.

(j) That, the only cost to the community of this imbursement shall be the cost of making and distributing money tickets: viz., the cost of ink, pens, paper, and a staff of accountants.

Section Three—The Gradual Supersession of Wages by Dividends

(k) That, money being a communal convenience and possession, it shall be controlled by the community in all of its three aspects of creation, distribution, and destruction.

(1) That, though monetary policy shall be vested as in Clause (k) the administration of that policy shall be vested, as now, in experts, who shall be appointed by and responsible to the community.

(m) That, to this end, Industry shall establish Banks, one for each major industry.

(n) That, the security of these Banks shall be the Real Credit of the respective industries for which each of them functions financially.

(o) That, employers shall pay all wages, salaries, etc., of employees into the latters' accounts current at their respective Industrial Banks.

(p) That, everyone engaged in Industry shall be *de facto* a shareholder in his respective Industrial Bank, and shall have one vote at its meetings of shareholders.

* * *

Such are the proposals—all of them peaceful, many of them startling, and nearly all in need of explanation. Before commenting on them in detail, however, we must confront a certain bogey that raises its phantasmagoric head, particularly in Section Two, for as long as we suspect its presence we shall be unable to give the proposals an unprejudiced hearing or the attention that at least is their due.

The bogey is of course Inflation, and certainly nine people out of every ten scanning the proposals for the first time will fancy they can smell out in them a virulent species of Inflation, in the popular meaning of the word, together with (see any journal, speech or book) "all its attendant evils."

Hitherto Inflation has always taken the form of

the familiar vicious spiral—an increase in money, rising prices, rising wages, a further increase in money, a further rise in prices, and in wages, and so on—evils familiar to all of us, notably in Germany and Russia after the War. On these accounts Inflation quite rightly has a bad name. If, however, money could be increased *without* a rise in prices Inflation would lose its sting completely. Now the New Economics asserts that this feat is both possible and practicable, basing the assertion on the following grounds:

1. A rise in prices accompanies an increase in money only when that increase is not paralleled by a proportionate increase in goods. Our remedy could not therefore result in a rise in prices because no increase in money would take place until the goods it represented were produced and, what is more, actually consumed.

2. With the adoption of the proposals Price would no longer depend on the volume of money in circulation, but the latter upon Price. Price would depend upon three things: Cost, Consumption, and Production. *Vide* Clause (d).

A graphic illustration will perhaps drive the matter home. Since the meaning of the word Inflation is a blowing-up, let us imagine a host of paper money tickets to be pouring in profusion from the printing press; and let them be gummed together so that they make a vast balloon. Now the point is that unless this balloon is weighted down with a sufficient ballast of Goods it will lift any community unfortunate enough to be hanging on to its ropes ever higher and higher into the air. Because such journeys are neither

comfortable nor of the community's seeking, and because those forced to take them invariably land with a crash, we are in the habit of blaming the paper money tickets for the whole mishap and consider them as things pernicious in themselves. In the proposed remedy, however, they could not form themselves into a balloon and carry us all helpless up in a misadventurous spiral, because each ticket would have a paper-weight on it, and the paper-weight would be a Good. In fact, no ticket would be printed until its respective article was in being and ready in place to weight it down, the previous existence of a Good—nay, its actual consumption—being the one condition of a ticket's issue.

Moreover, the proposals provide for an increase in money only to the extent by which people will be able to buy what they have produced. No more. There is nothing haphazard, reckless, or unlimited about our remedy. Thus, suppose the existence of $100 worth of goods. Then, whereas at present the community producing them can only claim, say, $40 worth, under the proposed scheme it would be able to claim the whole $100 worth by only paying $40 for them; exactly $60, no more and no less, being issued to reimburse the producer. Similarly, if the producer was so successful that $1,000,000 worth of his goods were claimed (with $400,000) then as much as $600,000 would be issued to him so that he could balance his books: on the other hand, if his goods were so bad or people wanted them so little that he only managed to sell $10 worth of them, then only $4 would be paid him. The volume of money being

thus absolutely and strictly tethered to that solidest of realities, Consumption—admirable, natural rock! —the charge of Inflation becomes either wanton or meaningless—unless, indeed, we mean by it a sufficient supply of money to enable people to buy the things they produce and want, and in that case the sooner we embark on this kind of Inflation the better.

Let us now turn to the proposals.

* * *

Section One—Price

(a) *That, during any given period the money in the hands of the Community shall be sufficient to buy the ultimate goods produced by the community during that period.*

This Clause needs no explanation, since we found that it was precisely the present chronic insufficiency of purchasing power which was at the root of the world's economic troubles and led directly to the major evils of war, financial bondage, waste and poverty.

(b) *That, to this end, the Price of these goods shall be less than their Cost.*

This Clause may indeed startle. Whoever heard of such a thing! If we are startled, it is because we find it difficult to believe that Price, or any part of it, could be paid from any source other than the Consumer; this burdened individual has always paid the whole of Price in the past, or tried to, and it therefore seems inconceivable that he should not always

continue to do so. But consider: the paying of Price is an economic, not a moral function. The only object of its being paid at all is the reimbursement of the Producer, to enable him to get his Costs back and not be out of pocket. Who cares what particular source Price is paid from? The Producer certainly doesn't care, so long as it comes to him from somewhere; and as for the Consumer, the less of it he is called upon to pay the better he'll be pleased. Now everyone is either a Producer or a Consumer, and generally of course he is both. This being so, there is literally no one in the community who could reasonably object to a part of Price being paid from a source different to that whence it now comes. Always provided:—one, that the money created and used to pay this part of Price had not got to be paid for, indirectly or eventually, either by the Producer or the Consumer in the form of taxes, interest, etc.; two, that a just, moral, ascertainable, real basis could be found for the creation of such money; and three, that the Producer got his full Price from somewhere. These three conditions are provided for in the present proposals, in Clauses (j), (i) and (g) respectively.

The present Clause is so vital that it is worth viewing from another angle.

If we are agreed that at present Incomes cannot meet Prices because only A is available to claim A + B, and if we are agreed that Incomes *ought* to be able to meet Prices, then clearly we *must* do one of two things, either increase Incomes or decrease Prices. In the first case we should have to increase Incomes by an amount X, equal to B, so that

Incomes (A + X) = Prices (A + B).

In the second case we should have to decrease Prices, again by an amount X, equal to B, so that

Incomes (A) = Prices (A + B - X).

Both of these devices would equate Incomes with Prices, which is our object, and no doubt a perfectly sound scheme could be framed incorporating the former way. The difficulty, however, would be to put such a scheme into practice, so beset would it be by dangers and difficulties the nature of which we need not enter into for the moment. Be that as it may, supporters of the New Economics consider that by means of the second way, a decrease in Prices, the object will be far more easily and safely achieved.

(c) *That, the Government shall keep a National Credit Account.*

On the figures revealed by this Account for any given period will depend the amount by which Prices shall be reduced during that period. This will be the basic reason for keeping such an account. Even apart from such a reason, however, there is nothing extravagant in such a proposal. Indeed, it is a matter for surprise that a nation which prides itself on its businesslike methods and depends for its life on the efforts of Industry should have been able to get along for so long without keeping such an account. Muddling through by the grace of its natural resources and by dint of the magnificent service and inventive genius of its members, this nation of ours is yet so much in the dark regarding its true economic position that it is possible for some of us to say we are "wealthy almost beyond compute" and others that we are "on the verge of national bankruptcy." Both we cannot be, yet in the absence of a National Credit Account neither statement can be proved false or true.

Nor would any elaborate organization be needed to give effect to the proposal. Since every industrial firm already keeps its individual accounts, the data and figures are ready available; they only need collating. Such collation could be and in fact would be automatically carried out by the Banks proposed in Clause (m). All that the Board of Trade or the Treasury would have to do would be to call for returns at fixed intervals from the central offices of such Banks, and from these publish the National Balance Sheet.

The general object, then, in keeping a National Credit Account would be to know how we stood as a single community at any given time; to know, that is to say, what our Real Credit was, whether it had appreciated or depreciated and if so to what extent, and to enable us to adjust our supply of money tickets accordingly, so that our financial wealth should tally as accurately as possible with our real wealth.

The most important particular object in keeping the Account, however, would be to determine at regular intervals the credit value of our Total National Consumption and the credit value of our total National Production, since on these two quantities depends, as will be seen later, the exact amount by which Price can be reduced. Both these quantities

could be easily ascertained by a small staff of statisticians and accountants, who would then proceed to compare them and see what relation or *ratio* they bore to each other. Even in the absence of a staff so employed, enough data already exist—in such figures, for instance, as the Board of Trade's Census of Production—to enable interested experts to make a rough estimate of this ratio; and though admittedly only approximate, there is no reason to doubt their conclusion, which is that at the present time our Total National Production is about four times our Total National Consumption. The ratio, that is, of our Consumption to our Production is as 1 is to 4; or our Consumption is a fraction, 1/4, of our Production.

If production seems disproportionately large compared to Consumption we must remember that a true estimate of Production includes not only the amount of ultimate goods actually produced, but also the amount by which we increase our capacity to produce them, by the amount of increase, that is, in our Real Credit. And this, in the heyday of the Machine's growth, we should expect to be by far the biggest item in Production: and it is. The point that Real Credit is an asset to be entered on the side of Production need not be labored; for if it isn't, what, pray, is it? Under what shall it be entered if not under Production? The moment we deny that Real Credit is a true item of Production we reach a state in which "nothing is that is." Quite shortly, a community is a Producer of Real Credit as well as of ultimate goods—a fact we shall recognize more readily perhaps if we call an increase in Real Credit by its more familiar name of Capital Appreciation. Production, therefore, includes at least two items, ultimate Goods and Capital Appreciation: but it includes a third item as well—Imports, since these may be defined as goods which though produced by other communities become resident in the community to which they are exported, and are consumed by that community, and so increase its real wealth and Production. By an exactly similar analysis we shall find that Total National Consumption consists also of three items, Ultimate Goods consumed, Capital Depreciation and Exports.

We can leave this Clause therefore in the knowledge that:

1. Total National Consumption = Ultimate Goods consumed + Capital Depreciation + Exports.
   Total National Production = Ultimate Goods produced + Capital Appreciation + Imports.

2. Both these amounts are ascertainable, and at present, roughly—Consumption : Production = 1 : 4.

For use in subsequent illustrations this approximate ratio will have to serve in the absence of the true figures, which only accurate and periodical statistics can reveal.

(d) *That, the Price of the said goods shall bear the same ratio to their Cost as the Total National Consumption bears to the Total National Production.*

Price : Cost = Total National Consumption : Total National Production.

$$\therefore \text{ Price} = \text{Cost} \times \frac{\text{Total National Consumption}}{\text{Total National Production}}$$

N. B.—Total National Consumption = Ultimate Goods consumed + Capital Depreciation + Exports.
Total National Production = Ultimate Goods produced + Capital Appreciation + Imports.

By our comments on the last Clause we have gone some way to understanding this one. . . .

The amount of additional money needed for Incomes to equal Prices, for A pounds to claim A + B pounds worth of goods, is obviously B pounds. In order that our national accounting may be both accurate and include every item, however, we must substitute the term "Total National Consumption" for the symbol "A," since A represents only wages, salaries and dividends, and is therefore only an item of our total Consumption and does not include the remaining items of Capital Depreciation and Exports. Similarly, we must substitute the term "Total National Production" for the Symbol "A + B," since the latter represents only the cost or money value of ultimate goods produced and omits the factors of Capital Appreciation and Imports.

Therefore, though it is true to say that the addition of B to Incomes or the subtraction of B from Prices is necessary to enable A to claim A + B, a more accurate because more inclusive way of stating the matter is this: For Consumption to claim Production, Consumption must somehow be credited with the sum of money by which its money value falls

short of the money value of Production. In other words, if we can ascertain the figures for our Total National Consumption and Total National Production respectively (and we now know that we can ascertain them) and subtract the one from the other, the resulting figure will be the actual amount of additional money needed to enable Consumption to claim Production at any given time.

So . . . a way is open for us to find out the actual amount of money, in good set figures, needed for Consumption to be able to claim Total Production, whenever we want to know it. The next thing is to decide how this money can best be distributed. It could no doubt be distributed at the end of each financial year; say, as soon as the amount of it had been calculated, or at any fixed time agreed upon, at Christmas, for instance; but there would be numerous objections to any such course. The organization required would be enormous and complicated, loopholes for abuse would offer themselves in plenty, and bureaucracy would have the time of its life trying to administer a scheme which would resemble our war-time registration and rationing and our peace-time dole and old age pensions all rolled into one. Then again, much of the money would be distributed when the exact moment at which it was needed most was either past or else not yet come; that is, some goods would have deteriorated, others would not yet be in existence, others gone out of fashion, others out of season, and so on; with the result that many people, urged by their instinct for security in the future, would decline to use the money

in the way for which it was expressly created and distributed, namely for spending on ultimate goods, and instead would send it into Industry by saving and investing it. This, of course, would be disastrous. For every time it happened it would mean that a ticket, specifically recruited to fight in the ranks of Consumption against Production, had gone over to the enemy. And there being no doubt that this would happen on a colossal scale, the whole Scheme would be rendered abortive and the remedy be decidedly worse than the disease. Moreover, so strong are our legacies from the age of real scarcity that this instinct of thrift and saving would operate even if the money was distributed at the right moment, with the desired articles on the market, in fashion, and of good quality. Even then it would not be used in the majority of cases to buy the articles. As long as the individual has to choose between saving and spending he or she (particularly he, perhaps) will tend to the former. Thus from his early youth the writer was taught to ask himself before buying anything, "Can I do without it?" and not "Do I want it?" So that were the money under discussion to make its entry into Consumption as cash twice a year, say, through the post, we can imagine the attitude of paterfamilias as he opens the envelope at breakfast. If his wife asks him to let her have it to spend, he will let her know that he expects her to manage on what she has always managed on. And he will probably win her over by appeals to their joint ambitions (do they not both want some day to move into a better neighborhood and send their boys to college?

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"It all costs money, my dear,") and by appealing to her pride—she, whose boast it is that she can make things "go far" and "do." And so the money will go to the bank to join its brothers until together they are strong enough to make a sortie into Production, deserters all.

If this additional money is to solve the economic trouble it must be distributed in a way which prevents the community misusing it by saving it, and compels it to use it in the manner intended. Precisely such a device is hit on by the present proposals when they declare that Price shall be less than Cost. Thus, supposing the cost of an article to be 4 tickets and the consumer to have only 1 ticket, it is proposed, not to give him 3 tickets but to take 3 away from the article's price and give them to the producer of the article, when he sells it. In this case, the consumer cannot possibly say, "Thank you, but on the whole I think I'll keep the tickets to invest and go without the article after all," since he has not been given them to make such a choice with. Nor can the producer baulk the scheme, for neither he has any choice in the way he uses the 3 tickets. Already bespoken, they have to be used to reimburse himself for the remaining cost of the article, and until they are used for this purpose he will remain in debt to himself, a position which not even a fool will suffer deliberately. Not, then, by giving a man an extra ticket to buy an article with, but by knocking a ticket off its price that is the proposal. By it, people would not be forced to shop all at once, at a certain time and embark on the passionate orgies of what would be equiv-

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alent to a National Bargain Sale, but would shop as they do now when and where and as they wanted; and each time they shopped they would be spending tiny pieces of the money which had been created to be used in just that way.

That the fraction of cost by which Price shall be reduced is $\dfrac{\text{Total National Consumption}}{\text{Total National Production}}$ is made clear

from the above example. For what price did the consumer pay for the article that cost 4 tickets. He paid 1 ticket. Yes, but he also paid

1 what? Answer, 1 quarter. One quarter of the article's cost.

$$\text{Price (1)} = \text{Cost (4)} \times \frac{\text{Total National Consumption (1)}}{\text{Total National Production (4)}} = 1.$$

By applying the formula the price of the article is reduced to 1 ticket, and the consumer, having 1 ticket, can pay it. When Industrial Price is submitted to the formula the resulting figure is known as the Just Price.

A similar result obtains when the formula is applied to Total Prices and Total Costs.

Total Prices = Total Costs x 1/4

Now Total Prices are composed of an army of single prices, total Costs of single costs, total Goods of single goods, and total Incomes of single incomes. So that if the total Prices of the total Goods have to be reduced to 1/4 of their total Costs for them to be claimed by

the community's total Income, then it obviously follows that each single article must be reduced by the same fraction. In fact the formula holds good for any article, each one having its own Just Price.

$$\text{Just Price} = \text{Cost} \times \frac{\text{Total National Consumption}}{\text{Total National Production}}$$

(e) *That, the Price Index*

$$\frac{\textit{Total National Consumption}}{\textit{Total National Production}}$$

shall be published by the Government at fixed intervals.

"Price Index" seems as good a name as any for the above fraction, which in its full title is somewhat cumbersome.

It would be published at whatever intervals thought advisable; quarterly, say, or half-yearly. Whereupon the prices of all articles in the retail shops would be reduced automatically on purchase by being multiplied by the Index. Thus, if I see a hat marked $4 I shall be able to buy it (still assuming the Index to be 14) with $1. There is no reason to suppose that the retailer would mark the hat $20 in the first place if it was only worth a quarter of that amount, since there is nothing in the proposals which would do away with natural competition and price-cutting. The latter, which is perhaps the chief weapon of that competition, would therefore still persist. If a hatter was foolish enough to mark the hat $20, clearly it would be in fear that he would be

unable to get back its whole industrial price of $4 unless he got it all back from *me*. And why should he fear this when he knows that under the scheme he will automatically get back the whole of it (provided he sells the hat) partly from me and partly from the community. Such hatters, far from ruining the Scheme, would only prove themselves fools heading for bankruptcy, and when they realized that in order to sell hats they must do so at competitive prices they would quickly sell me the hat I wanted at its Just Price, or give up hatting.

Similarly, there is no reason to suppose that the Index itself would be "cooked." In the first place it is a mathematical calculation depending upon facts and tending to benefit the whole community, and not like the Bank rate, say, a figure published at fixed intervals at present by the Government's Government, which depends on the decisions of a few non-responsible individuals and tends to benefit only them. In the second place it would be to no one's advantage to "cook" the Index, any error in it resulting in inflation or deflation, according to the direction in which the error lay. On the other hand, any unintentional error in the Index for one period would be rectified and balanced in the Index for the following one.

(f) *That the Price of Exports shall be what they will fetch.*

This Clause brings us to the consideration of how the adoption of the proposals would affect foreign trade, foreign exchanges and our commercial relations to the world outside in general.

Since we cannot make at home all the goods we want we must clearly produce an extra amount of those goods we can make and exchange them for the goods we desire from abroad. Beyond this there is nothing to be considered or aimed at, and export trade would cease to be what it is today, the first essential of our economic health, and at last take its rightful place which is one secondary to home trade.

In fact, the only point at issue is the Price at which exported goods shall be sold. Now, since we are engaged in building an economic edifice for a single nation of single monetary area and possessing a single slab of Real Credit, there is no reason why those outside that area should share in its Real Credit. They will share in the Real Credit of their own areas. If we let the foreigner have goods at their

Just Price it would mean that he was sharing in our Real Credit without either working to produce it or inheriting it. Nevertheless, having the reverse of a grudge against the foreigner, we should be only too delighted to allow him to share in our Real Credit provided he did so on a tit for tat understanding and allowed us to share in his. Unfortunately there is no guarantee that we should have to pay only the Just Price for Imports. So the idea, though a happy and fraternal one, must remain for the present outside these proposals, which are nothing if not realistic and immediately applicable. It is not proposed, therefore, to sell Exports at their Just Price but, as now, at whatever price they will fetch in the open market. Indeed, the only difference from now would be the disappearance of the feverish

anxiety that now obtains under a system by which goods *must* at all costs be got rid of abroad because they *cannot* be got rid of at home.

As for the credit or esteem in which our money was held abroad, and the amount of foreign monies exchangeable for a unit of it, both these things would stand high, since our money, being able to buy much more than it does now, would increase in value, so that the foreigner would be only too glad to get hold of as much of it as he could. The chances are that it would become so valuable, and we should simultaneously be so prosperous and independent, that other nations out of self defence would speedily have to adopt a similar economic system.

* * *

Section Two—The National Dividend

(g) *That, the difference between Price and Cost shall be made up to the Producer by an imbursement from the community.*

As already stated, the Producer must recover his total loss by getting his full Industrial Price from somewhere, or he will go bankrupt and stop producing. So much is self-evident. Now from the Consumer he recovers only the Just Price; therefore he is short of his full Price and has still to recover the difference between the Industrial Price and the Just Price; which sum or imbursement is identical, of course, with the "additional money" we have been discussing all along, and which we saw was calculated

by subtracting Total National Consumption from Total National Production. His share in this sum the Producer must recover from somewhere, and having let me have a hat for $1 which cost him $5 to make, he is morally and economically entitled to recover it. Clearly the only source which it can legitimately and properly come from is the source which creates, owns and controls money; in short, the source of money itself, which Clause (k) postulates to be the community itself.

(h) *That, this imbursement shall be made through the Government Department appointed to administer the Community's financial affairs/ namely, the Treasury.*

The Treasury is obviously the right Department for the job. It would distribute the money to the Producer by way of imbursement because the community would tell it to, in this administrative function the Treasury acting simply and solely as the community's representative or agent. The actual form the money took would be immaterial: it might take the form of Treasury notes, of course, but seeing that the check method of payment is growing more and more popular, it would more likely take the form of Financial Credit and consist simply of figures credited to the Producer's account at one of the Industrial Banks stipulated in Clause (m). But whatever form the money took one thing is certain it would not only be distributed by the Treasury but actually made, manufactured, created by it, too, the Treasury still functioning as the community's representative or agent. That is to say, the Treasury

would not deal with this money or any other in the way it deals at present with money in general. To wit, *it would not borrow it*. *It would create it*. For, once again, why in the name of all that is just and moral, logical and reasonable, should the community now or at any time go cap in hand to hire money from private banking institutions and pay them a stiff price for the hiring, when the community itself commands, nay, actually produces, the material out of which all money is manufactured, including banker's money,—namely, Real Credit. If the community creates its Real Credit by the sweat of its brow and the genius of its brain there is no reason on earth why it should not and could not also create the money to represent its Real Credit, by computing a few figures and turning a few printing presses. On the contrary, there is every reason why the community should make its own money and no reason why private banks should do so for it, and then—magnificent impertinence!—proceed to hire out to the community what belongs to the latter in the first place and is not its own to hire out at all. Not being borrowed, then, the specific money under discussion could not be regarded as a debt, since a community, just like an individual, can only owe what it borrows, not what it creates out of its own resources. Indeed, as far as debt is concerned, the only one owed is to the Producer for increasing the well-being of the people who consume his goods and so the sum total of the community's life and real wealth; and far from there being any question of the money being a debt it is simply the means used by the community to

pay this Real debt which it owes to the Producer.

It is worth noting that at present every national Treasury behaves less like a duly elected representative or agent of the community, and more like a junior partner in an old established private firm of Bankers. Or, truer still, like a head clerk, who, not so securely entrenched as a junior partner, is always anxious to please and keep on the right side of his boss. When, for instance, the Governor of the Bank of England and the Chancellor of the Exchequer meet on business who has the whip hand? We can answer this by asking which of the two is permanent and which transient, which the lender and which the borrower, which has the gold and which hasn't. No wonder the head clerk does what he is told.

A man who is bullied by his employer will very often be a martinet in his home, and if the eldest boy in a family gives the second a poor time of it the latter will feel inclined to try and get back some of his self-respect by bullying the youngest; the person imposed upon always wanting to "take it out of" someone weaker. A national Treasury's behavior at present is very much along these lines. Subservient to the Banks, it yet lords it over the community whose hack it really is with ill-concealed contempt. How else can be explained the ignorance in which the community is kept regarding all economic and financial matters ranging from the dictatorial return to the gold standard to the inexplicable income tax forms which are so involved that professional help has to be called in to fill them up correctly. And what is it but ill-concealed contempt when we find a British Chan-

cellor or Keeper of the nation's exchequer publicly declaring to a meeting of bankers and merchants at the Mansion House that an infallible test to apply to the question of whether a particular measure of finance was sound or not, was first to find out whether it was disagreeable. This remark, according to a reporter, "evoked great hilarity," but Mr. Churchill meant every word. It was a good joke because it was so true, and the best of it was that the bankers, having nothing to fear, had no need to stifle their laughter up their sleeves. The same Chancellor, when introducing the Budget of 1927, stated that the Finance Bill set forth certain alterations in the income-tax law in language which he might say with safety very few people would understand. Here the effort to conceal contempt for the citizen is dispensed with altogether, and Mr. Churchill speaks more truthfully for speaking plainly.

(i) *That, this imbursement shall be regarded as a National Dividend payable in virtue of the addition to the community's Real Wealth brought about by not only the production but also the consumption of the ultimate goods concerned.*

If such an imbursement is justifiable it will not be denied that "National Dividend" is a suitable name for it, and since the whole trend of this book has been to justify the creation and payment of such an imbursement on grounds moral, logical, economic, and sane, we need not labor the point here. We will, therefore, sum the matter up as briefly as possible, and then, to drive it home, glance at the National Dividend from a few fresh angles.

First, then, by way of summary. Just as the subjects of copyrights and patents remain private property for only a very limited period and thereafter become common or communal property, enabling anyone to perform a play of Shakespeare's or build a steam engine who wants to, so it is with inventions and processes, all of which are gradually absorbed into the general stream of cultural wealth, there ever to be improved upon and developed. This thing, which Mr. Thorstein Veblen calls the "progress of the industrial arts," is neither private nor purchaseable but something common to a particular civilization and a particular age. No one man can point to the Machine as we know it to-day and say, "That is mine," nor any set of men say of it, "That is our doing." Like civilization itself, the Machine belongs to nobody except everybody, a thing common to mankind, including a host of people now dead and for the most part forgotten. It is a legacy contributed to by generation after generation; and also inherited by generation after generation. To-day this legacy is more than considerable; it is staggering—which is why it is so important for us to view it aright—no less than approximately 95 per cent. of modern production being a matter of tool and process. Clearly, now, as heir to these tools and processes the community inherits any benefits accruing from their use; and the proposed National Dividend, depending as it does strictly on the use made of these tools and processes, and being simply a reflection in tickets of our "progress in the industrial arts," is one way of claiming such benefits. It should be remembered, of

course, that heirs do not buy or pay for their inheritance but claim it and get it free. Major Douglas has put the matter neatly in his conception of "Great Britain, Limited," in which the whole of the country's "natural born inhabitants are interested in it in their capacity as shareholders, holding the ordinary stock, which is inalienable and unsaleable. . . ," and whereby "every individual would be possessed of purchasing-power which would be the reflection of his position as a 'tenant-for-life' of the benefits of the cultural heritage handed down from generation to generation. Every individual would be vitally interested in that heritage and his clear interest would be to preserve and enhance it." Otherwise, unless some arrangement is made at least analogous to the National Dividend proposed, Man stands condemned by Man, self-enchained, a picture Wordsworth saw when he wrote:

> "Our life is turned
> Out of her course, wherever man is made
> An offering, or a sacrifice, a tool
> Or implement, a passive thing employed
> As a brute means, without acknowledgement
> Of common right or interest in the end."

So much by way of summing up what has been implied to justify the basis of such a free payment as the National Dividend. Next, to look at a few "close-ups" of it in its practical application.

* * *

1. If we are still uneasy about the idea of creating money for the sake of helping Consumers to buy things, we can quickly relieve our minds by asking, "What, pray, of the money created daily by perfectly orthodox methods, all of it for the sake of helping Producers to make things?" We are not aghast at the latter method of creating money; why at the former, then? Prejudice apart, we cannot disapprove of the one without the other; and when we have finished comparing the two it will be surprising if we do not endorse both, and further, actually prefer the principle by which money is created for the Consumer to spend in *buying* goods to the principle by which it is created for the Producer to spend in *making* them. Firstly and fundamentally, there is nothing wrong or harmful in the creation of money *per se:* on the contrary, it is a necessity and it is done every day. Secondly, money being a convenience, and ours, and flowing in a stream that eventually returns to its source, we are at perfect liberty to divert it at will for purposes of healthier irrigation after it leaves its source and before it returns to it, if we find that some parts of the land of economics are less well watered than others. Thirdly, it is surely preferable that the community should create it through its Treasury rather than borrow it from the private money monopolists. Fourthly, we have seen that a manufacturer can get a large sum of money created for him if he goes to one of the present creators of it, suitably armed of course with collateral security, and says, "I *hope* to make so many boots, and *if* and

when I've made them I *hope* to sell them," but we have never heard of a manufacturer getting a similar or any sum at all created for him by saying, "I *have made* so many boots; not only that, I've *sold* them, and people are going about at this moment the better off and happier for wearing them." Yet as a pleader for the creation of money the latter is surely the more winning of the two. Against the solid accomplished facts of boots produced, sold and being worn, the first manufacturer pits a series of hopes. He cannot guarantee that he will succeed even in making the boots—his factory may burn down; while if he does succeed in making them he may not be able to sell them—they may be bad boots, or people may not have enough money at the moment to buy them, or they may prefer to buy something else. Whereas in the case of the second manufacturer all these things are known factors when he applies for money—his were good boots or people wouldn't have bought them, and so on—so that the risk in creating it in respect of these boots is nil. With consumption, the object of Industry achieved, the risk is over. In short, the security offered by "I *hope* to . . . " and "*If* and *when* . . . " is far less sound and businesslike than that offered by "Done! I've 'delivered the goods.'"

Fifthly, we have seen the evil way in which money created for Production is forced to operate. It is used to produce goods, it is true, but we know now that the bulk of these have to be sent abroad because they cannot be sold at home. Now the production of such goods, though it speaks volumes for the capacity

of the Machine, is not the object of Industry and speaks nothing for the efficiency of the economic System. The object of Industry is primarily to produce the amount of goods desired at home and to distribute them there, as and when and where required; and in the case of the money it is proposed to create to help Consumers to buy goods with, none of the goods concerned will have been exported or be due for export; on the contrary, all of them will already have been consumed at home.

* * *

2. The moment at which the National Dividend will be created will be when goods pass across the retail counter, and the fact that a few days will elapse before the money representing them is printed or written in a book does not invalidate this truth. Thus, a piece of the National Dividend will be created when a grocer hands a pound of apples to a customer in return for a fraction of the cost of their production. And it will be on the strength of this transaction that the grocer will communicate through various accredited channels with the Treasury, saying, in effect, "Look here, I've just sold a pound of apples. That's good business, isn't it? It's good for me because it has increased my business, good for the people who have eaten them because it'll make them happier and healthier, and good for you because you represent the sum total of all such goodnesses (or you represent nothing). Now this little piece of goodness I've just put through is additional to the

total goodness that existed before. That is to say, it is literally an increase in the prosperity and real wealth of the land, new, created by the sun and the soil and the apple-tree and the railway and me and my customer and a number of other things and people. Very well, then, kindly act in the usual way and issue a ticket of financial wealth to represent this increase in real wealth. What'll you do with it? Why, man, send it to me, the man who is out of pocket through selling the apples for less than they cost me. In what form shall you send it? Well, I don't mind . . . whatever's convenient . . . either one of your notes or, handier still, perhaps the Food Bank could chalk it up as credit to my account don't want too much cash hanging about these days—and then you and the Bank can fix it up between you later on." This ticket, whatever form it took, would in reality represent the overhead cost of turning a piece of virgin land in which woaded Britons roamed into a fruitful orchard; and this cost, being paid for probably generations ago, would no longer be charged to the customer, who would pay for his or her apples only the labor cost incurred in producing them.

* * *

3. Can we be sure that the National Dividend will be best distributed in the form proposed? For there are others; which form shall it take? More leisure? More services? More money (not strictly related to goods)? More goods (throught the in-

creased purchasing power of money, as proposed)? Or what?

Regarding leisure, it is clear that no one will say thank you for it if he is not already in possession of security. Leisure is not legal tender and today it means empty stomachs. It merely affords additional time for despondency to undermine men's confidence and self-respect, and soon over the pitiable debris temptations to all kinds of things, from theft to suicide, clamber into the mind and lodge there unresisted. God save us from leisure, is our cry, for that way at present lies starvation or crime.

Similarly with services. Munificent communal endowments for education and the rest, though they will come in time, are not the way to start. Before the mind can be developed the body holding it must be made healthy. A man will not react aesthetically to a beautiful picture, for example, as long as the picture in his mind's eye of a square meal holds most of his attention. In fact, gew-gaws gratis and free cultural amenities are all alike in that they resolve themselves into stones and receive only the attention and welcome given to stones, as long as their recipients lack a sufficiency of bread. And by bread are meant the three Rs of goods; food, clothing, and shelter.

Is it to be simply more money, then? Again no, because what will it benefit a man if he is given more money and then, everyone finding it out, is charged proportionately more for everything he buys? And what is the use of money unless it can claim goods satisfactorily, which it can do only by being strictly

related to them? Nuggets of gold on a deserted island are merely uneatable, just as pocketfuls of it in far Russia during the post-war famines became mere glittering baubles.

It is not free leisure, free culture, or free money, then, that men seek primarily, but goods, goods, goods. These are the only things all men can use to real advantage the moment they get them. It becomes clear, therefore, that our communal inheritance can best be claimed in goods rather than in money or anything else, and the National Dividend proposed provides a means for this, since by it everyone from dukes to Dicks will be able to get more goods than they do at present without paying any more for them.

* * *

4. We have seen that the money it is proposed to create to aid Consumption is analogous to that created to aid Production, and that, incidentally, where the parallel ceases the advantage is to the former. Now since the latter is commonly called Producer-Credit we can call the former Consumer-Credit, under which name it will not seem so fearsome and heterodox, perhaps, as when called a National Dividend, for, Juliet notwithstanding, there is much in a name when we come to estimating the strength of prejudice.

It is true that the issue of Consumer-Credit has never yet been scientifically applied (nor for that matter has Producer-Credit) and is not part of the orthodox economic text-books, but we must not prepare to hiss it off the economic stage for being a novice or an amateur. Far from that, we must recognize the fact that one member of the Consumer-Credit troupe, calling itself the Instalment System, has already made a very successful debut in the U. S. A. where it is performing an extremely popular turn which everyone applauds and encores—everyone, that is, except the bankers who sit well at the back of the boxes, intent and silent, watching for any chance to criticize and condemn the act, which they consider risque in the extreme, though, as yet, they cannot stop it.

But it is not only the Instalment System, which after all is a poor thing compared to what people have a right to expect for their money, having been pushed before the footlights with no training and doing things without knowing why—there are other members of the troupe undergoing careful training, and every economic tendency to-day points to the fact that the Consumer-Credit troupe as a whole is in the ascendant. Should any member of it reach stardom, it will inevitably displace the archaic Rule from the throne of the economic system; for which place of honor the New Economics are prepared to back the present proposals.

Consider, for instance, the implications in the following extracts from sayings by responsible people who have probably never heard of Major Douglas or the A + B Theorem or the New Economics.

Writing in the Baltic-Scandinavian Trade Review in 1925 Mr. Virgil Jordan says: "The main problem before (American) industry . . . is no longer the

problem of production, but the problem of consumption. . . . The absorbing power of the market does not increase as rapidly as the producing power of industry. . . . Economic thought will be increasingly occupied in the future with problems of consumption."

Speaking in the British House of Commons in 1926 Mr. Snowden, an ex-Chancellor of the Exchequer, said, "There cannot be high consumption without high purchasing power, which produces both high consumption and high production," and went on to observe that if each of our 12,000,000 workers received another 5s. per week our home trade would increase by £150,000,000 per annum. He continued: "If we could raise the purchasing power of the Indian people by the modest sum of 7s. per year we should double our trade with India, and all the looms and spindles of Lancashire would be inadequate to meet the increased demand."

At the second Annual Automotive Financing Conference held at Chicago in 1925, Mr. A. R. Erskine, President of the Studebaker Corporation, gave it as his opinion that "the whole business of the U. S. nation and our present standard of living are supported by credit, and principally by consumer credit. . . . Manufacturers, merchants, and financiers fully realize to-day, as never before, that the wheels of business cannot be kept turning, on a broad scale, without mass consumption—that credit must be available to consumers as well as to producers and distributors of the products of industry and agriculture."

That awkwardly clear-sighted Englishman, Mr. Wheatley, said in the House of Commons in 1926: "You ought to increase the incomes of the people so that they can keep pace with production."

Finance, however, views Consumer-Credit of all kinds inimicably on the principle that reasonable prosperity makes a consumer unreasonably independent. Accordingly we are not surprised to find the Instalment System subtly castigated in *Barron's Weekly,* an organ of Finance. "We have eliminated the old-time business inflation," it says, "but are now paradoxically embarking on a new inflation by a new method based upon the credit of the individual, which is admittedly a vaster reservoir of credit than commercial credit." (By which is meant, of course, Producer-Credit.) "This deeper reservoir of individual credit is actually a more serious problem if stirred out of its center of gravity than commercial credit, which is under much better control." (Whose control?) "It is generally admitted that the volume done on instalment for 1925 is between 20 per cent. and 30 per cent. of the total retail sales volume. This would make nine or ten billion dollars for instalment buying. The total volume has nearly doubled in the past year. No consumer credit orgy must be permitted."

And so we can go on affirming in a hundred and one ways that our problem is one of Consumption rather than Production, all modern economic thought (except Finance's, which is mercantile rather than economic) insisting that the Consumer's purchasing power somehow be increased.

not only agrees, but it also shows how this can be done, and done moreover without revolution or confiscation or hardship to anyone, without any rise in prices, without any accumulation of debt.

(j) *That, the only cost to the community of this imbursement shall be the cost of making and distributing money tickets: viz., the cost of ink, pens, paper, and a staff of accountants.*

The essential condition of the National Dividend being that it should not represent man-work, but be free, it must not be filched by taxation or any other device from the money men earn by their man-work. On the other hand, the cost of actually making the National Dividend is a definite item to be debited to the National Credit Account. Such cost, however, being nothing beyond that itemized in the present Clause, is to all intents infinitesimal.

(k) *That, money being a communal convenience and possession, it shall be controlled by the community in all of its three aspects of creation, distribution, and destruction.*

At present, as we know, money is created, distributed and destroyed by private banking institutions working internationally, which, by controlling money, control the world and all of us. This mighty phenomenon we embrace by the name of Finance, and we can say of it as Cassius said of Caesar, that it "doth bestride the narrow world

Like a Colossus; and we petty men
Walk under its huge legs and peep about
To find ourselves dishonorable graves."

Finance's preoccupation is monetary gain and the power such gain brings with it, so that Finance at present practises mercantile economy. Under this Clause, however, it would cease to do so and, become social and communal where now it is private and monopolistic, it would practise political economy instead. In fact, the difference between mercantile and political economy, as shown by Ruskin, is a true measure of the difference between what happens now and what would happen were our remedy adopted. According to Ruskin, "Political economy (the economy of the State, or of citizens) consists simply in the production, preservation, and distribution, at fittest time and place, of useful and pleasurable things," whereas "Mercantile economy (the economy of 'merces' or of 'pay') signifies the accumulation, in the hands of individuals, of legal or moral claim upon, or power over, the labor of others."

(1) *That, though monetary policy shall be vested as in Clause* (k) *the administration of that policy shall be vested, as now, in experts, who shall be appointed by and responsible to the community.*

Obvious though this Clause may be, it is yet important to mark the difference between *policy* and *administration*. Policy we previously defined as the end aimed at and administration as the way to get there. Or, even more shortly, policy is a wish and administration its fulfilment. Thus, if the owner of a

steam yacht wishes to visit a South Sea Island, he appoints a captain to take him there, and though the owner is on board he had no hand in the sailing of the ship, the expert decision of how best to reach the island resting entirely with the Captain. Even suppose the latter disobeyed orders and sailed for another place the owner would be powerless to stop him as long as they were at sea. The moment they touched port, however, his redress would come, for then, since the captain was appointed by him and paid by him, he could dismiss him and appoint another in his place, which he would promptly proceed to do. In the case of a small boat the owner and captain are no doubt often the same person, but in the case of a steam yacht it almost invariably happens that the owner has been so busy accumulating enough money to buy the yacht with that he has had no time to learn how to sail her, which is, after all, an expert process demanding a full apprenticeship and training. So is it with the ship of State. The community, though qualified by ownership to say what port it wants to visit, is not qualified by training to sail her there, so busy is it leading its myriad lives ashore.

Monetary and industrial processes, to drop the metaphor, are specialized matters and the province of experts, and the correct behavior of the non-expert owner who controls policy is for him to decide what he wants done and then to appoint the best person he can find—the expert—to do it. Incorrect behavior would be to try and tell the expert *how* to do it. Should the expert fail to execute the job, fail, that is, to *administer policy,* he must either prove it impos-

sible of fulfilment or be sacked in favor of an experter expert. One of our troubles at present, of course, is that we cannot sack the present monetary experts, however much we may disapprove of their administration, because, not controlling policy, we didn't appoint them.

In this connection we may note that it would not be in the least necessary, any more than it is now, for members of the community to know the precise manner by which the ship of State is made to sail before taking a voyage in her. That is to say, a person will not decline to pay the Just Price of a nickel, say, for a fifteen cent packet of cigarettes on the ground that he doesn't understand the details of the economic basis on which the transaction rests, any more than he refuses to use a telephone or radio on the ground that he is ignorant of electrical science. He will need to be no more versed in economics than now, when he is paying fifteen cents for his cigarettes, and how many people to-day know anything about the working of those fifteen cents or about the mechanism of money in general? All they know is that it will claim fifteen cents worth of goods. Small knowledge, but it is enough, and it is all that would be required if the Just Price supplanted the present Industrial Price. The economic philosophy and monetary mechanism of the former people would take on trust, just as they now take those of the latter, and just as they take the electrical mechanism of the telephone and radio on trust. Conveniences all, we use them as long as they serve us and it is only because our monetary mechanism is ceasing to serve us satis-

factorily in its present form that it is proposed to alter it. Naturally the alterations require the expert.

(m) *That, to this end, Industry shall establish Banks, one for each major industry.*

In the body economic a Bank is the organ whose proper function is to represent wealth by money, or issue Financial Credit against Real Credit. And since it is Industry (i.e., the community at work as producer) which produces Real Credit, it is only right and proper that Industry should have the Financial Credit to represent it; receiving the Financial Credit, of course, from the Treasury.

The actual number of such Banks would be determined by experience. The general principle, however, would make for few rather than many; there would be a Food Bank, for instance, a Clothing Bank, a Housing Bank, a Transport Bank, an Engineering Bank, a Power Bank and so on; and while it might be found advisable to trisect the Power Bank into a Coal Bank, an Oil Bank and an Electrical Bank, such details are unimportant at this stage. As soon as the will to adopt the proposals is forthcoming the best way to administer them will quickly be found.

There is nothing novel in the idea of Industrial Banks, as such. In the U. S. A. there are plenty of them; though these, through failing to rectify the accounting defects inherent in the present economic system, have been swallowed up by that system and have become to all intents and purposes just like any other bank.

Then again, there is no reason why such Banks should not function with the almost miraculous efficiency which is so marked a future [sic, should read “feature”—Ed.] of the present banks. Indeed, we may say that the construction of the present system is magnificent, its running frictionless and its details perfectly turned and cared for, and that the only trouble lies in this mass of perfection being put to wrong use.

Lastly, there is no reason why Industry should establish all its Banks at once. One of the objects of the proposal is that the transition from the existing system should be gradual and gentle, evolutionary rather than revolutionary. A start could be made with any industry. In fact, a scheme for the coal mining industry alone has been drafted by Major Douglas with the specific object of showing that an independent start could be made there, and a "transition effected from the present state of industrial chaos to a state of economic democracy, with the minimum amount of friction and the maximum results in the general well-being." This scheme (from which the proposals now under discussion are strictly derived) though admittedly only a draft subject to amendment, yet provided in detail for the future of such things as the capital already invested in the mining industry, studiously avoiding anything resembling Red revenge. The temporary fate of this scheme we shall see later.

(n) *That, the security of these Banks shall be the Real Credit of the respective Industries for which each of them functions financially.*

There can be no question of such a Bank going smash. Consider, for instance, a Coal Bank. As long as some men want coal and others are both willing and able to raise it, and others to distribute it, as long, that is, as coal continues to contribute to the community's Real Credit, so long will the Coal Bank rest secure on that Real Credit. On the other hand, if and when a time comes when nobody wants coal or when none is raised or when none is left to raise, then the sooner the Coal Bank goes into liquidation and disappears the better, for with the industry's Real Credit gone the continued creation of Financial Credit for it would be an inflationary act. Such a picture is purely hypothetical, of course, because the *sine qua non* of the Bank being credited with money from the Treasury would be its production and distribution of coal, and the former could not take place without the latter.

(o) *That, employers shall pay all wages, salaries, etc., of employees into the latter's accounts current at their respective Industrial Banks.*

In conjunction with Clause (n), imagine what this means! A vast current of Financial Credit would be flowing continually through the Banks, week by week, quarter by quarter, year by year, the amount of it being strictly proportionate to the prosperity of Industry. For example, the weekly wages of the coal mining industry alone are estimated at four and a half million pounds, so that, allowing another half million for salaries, a constant stream of about five million pounds would be passing through the Coal Bank. If anything took place to lessen the Real Credit of mining—a strike, say—then a smaller

stream of Financial Credit would flow through the Coal Bank for as long as the strike lasted.

This stream of money, incidentally, would form the Coal Bank's "capital," and, coming thus from within the industry itself, would not have to be borrowed from traders in money or subscribed for by the public, as is the present way of raising "capital," and consequently the Industrial Banks would have no interest to pay in respect of borrowed or subscribed money. They would be more prosperous, therefore, for being free of this burden.

(p) *That, everyone engaged in Industry shall be "de facto" a shareholder in his respective Industrial Bank, and shall have one vote at its meetings of shareholders.*

In any industry in full health it must be assumed that everyone engaged in it is necessary to it, from the lowest paid unskilled workman to the highest paid director. If this is so, it is only just that every such person should share in any increase in the industry's Real Credit—such increase accruing through improved organization and process, economization of energy, and reduced costs. In other words, they must all hold shares, be shareholders in the most literal sense of the word. Following this line of argument, then, everyone who is responsible for such increase in Real Credit must share in it. Now who, in this sense, is "everyone"? (Does it include anyone besides those engaged in the industry where the increase occurs? Obviously it does. It includes the Consumer. Those engaged in Industry are only part-producers of Real Credit; those outside Industry, the Consumers, are part-producers of it, too, for without their demand and desire the increase would never have taken place and unless they use it it becomes valueless and will fade away. Consumers in general, then, as well as producers in particular, must be enabled to share in the increase of any particular industry's Real Credit. And the Financial Credit representing it must be apportioned accordingly between these two; some of it being credited to the thousands of individual industrialists' accounts kept at the Industrial Bank concerned, and some to the Consumers' communal National Credit Account. In this way each member of the two parties concerned will realize their respective shares of the increase in Real Credit in hard cash or its equivalent. The people engaged in the industry, on the one hand, will realize their share through a definite addition to their credit at their Industrial Bank, while the consumers outside the industry concerned, on the other hand, will realize their share (since part of the sum will be credited to the National Credit Account and entered therefore on the side of Total National Production) through an increase in the denominator of the Price Index and consequently a proportionate diminution of the Just Price. No vast improvement in the Machine would be necessary for our Real Credit to increase to such an extent that the Price Index would be 1/5 or even 1/6 instead of the approximate 1/4 it is estimated to be now.

In what exact proportions an increase in Real Credit should be distributed between the National Credit Account and individual industrial accounts is

of course debatable. But since consumption is as necessary to production as production is to consumption, and the Machine and all improvements thereof are a communal inheritance, we could not go very wrong for a start if we distributed the increase in Real Credit, or rather the Financial Credit representing it, equally, half to the general credit of the National Credit Account and half to the individual credits at the Industrial Banks concerned, as representing the industry and the community respectively.

Thus we have reached a point at which we can say emphatically that under the proposed remedy the object of *everyone,* inside Industry and out, would be to produce Real Credit and increase it, using harnessed forms of energy to their fullest extent and welcoming them, and with as little cost and man-work as possible to produce as many goods as are wanted and to increase the capacity to produce them with still less cost and man-work—a state of affairs indeed the antithesis of the present one!

One vote for each shareholder, and only one, would safeguard industrial policy from being controlled by any one class of industrialist more than another, by the highly more than by the lowly paid. One of the great boons resulting from the adoption of the Scheme, in fact, would be the disappearance of the present rampant class industrialism, since everyone engaged in Industry, from directors to workmen, would have as never before a common incentive to work together. Trades unions, now exclusively proletariat, would include Industry's "salariat" and capitalists, and real trades unions would supplant the

present class union. Though it is more than likely such organizations would become mere shadows of their present selves, and even die of inanition, not through persecution and defeat, however, but because they would have automatically achieved their aims; these being, apart from the bloodshed desired by the few, security, a decent standard of living, and a voice in the policy of Industry.

In contradistinction to industrial policy, however, a vote at the meetings of shareholders would carry with it no voice swaying industrial process, this, as we saw in the commentary on Clause (I), being a matter not of *policy* but *administration*. Not that there would be the slightest temptation such as there is at present for wage earners to hinder the Machine's improvement and interfere with industrial process on the ground that they displaced man-work; on the contrary, they would know that their introduction, by increasing Real Credit, would signify another slab of purchasing power the next time the accountants at their Banks made up their books. And eventually, if some new process enabled the Machine to dispense with their man-work altogether, the Real Credit ensuing would be proportionately high and their slab of Financial Credit proportionately great. For they would still keep their industrial account open, there being no reason why they should close it simply because they had stopped drawing a weekly wage. Whether they participated actively or passively in Industry, they would be shareholders in it for life, just as a consumer remains a permanent shareholder in Great Britain Limited. And those who in this

way achieved partial or complete leisure would not have to spend it in shame-faced starvation but would possess the means to employ it humanly in decent security.

Regarded as Producer, then, an employee would depend less and less upon his weekly wage and more and more upon these "dividends," as we may call them, paid him as a shareholder in a particular industry: while regarded as Consumer he would benefit by an increase in the National Dividend paid him as a shareholder in Great Britain Limited, a firm which would be engaged in producing an ultimate consumable good called Real Credit.

* * *

However complicated some of the Clauses may seem at first sight, and however impossible to retain all of them in mind except parrot fashion and by rote, yet the quintessence of the Scheme as a whole is simplicity itself, and once grasped not easily forgotten. Stripped to the bone, the remedy is seen to be a two-fold one, one part concerning the volume of Money and the other concerning the amount of Price. The former consists of a mathematical regulation of the quantity of Money in circulation at any given time; the latter of a mathematical regulation of Price at any given time. In short, the twin foundations on which the remedy rests are the National Dividend and the Just Price. The remedy, be it noted, does *not* consist solely in adding to the community's money; *nor* does it consist solely in reducing

prices; but in *both of these together*—resulting in an addition to the community's purchasing power. For the remedy to be effective, the National Dividend and the Just Price must be applied *simultaneously*. In fact, the remedy is like Siamese twins, who would die if severed. It is important to stress this point because one twin is so very much more easily understood than the other, that nine people out of ten succumb to the temptation of paying all their attention to the one they can understand and neglecting the other simply because they find it somewhat intractable to manage. Thus, no doubt, it is quite easy for the average layman to realize that more money is needed; if personal experience does not tell him as much, the simplest exposition of the A + B Theorem will quickly bring the matter home to him. On the other hand, it is not nearly so easy for him to work out for himself, or appreciate when worked out for him, the intricate steps by which the Just Price is arrived at, though the application of the Just Price formula is absolutely essential if the increased money he desires so ardently is not to lose its additional purchasing power the moment it appears. "More Money" is a facile slogan, whereas "Price Regulation" involves some hard thinking which comes easily perhaps only to people with at least a semi-mathematical turn of mind. Nevertheless "Price Regulation" must accompany "More Money" wherever the latter goes, on to platforms and banners, into speeches, books, and the Press, for without "Price Regulation," "More Money" will prove a myth if not a fiasco. This is why it is seriously

suggested that some such picture as that of Siamese twins should always be kept in mind whenever the remedy proposed by the New Economics is pondered over or discussed. Once again, then, *there is no use whatever in increasing the Volume of Money if at the same time you don't regulate Price*.

For the rest, there are only two factions who have anything to fear from the adoption of the Scheme—Finance and the Reds. Finance has too much power, and it would be stripped of it. No longer would it possess a monopoly of money or be able to trade on its own terms in what is essentially a communal convenience, and no longer therefore would it hold Industry in an ever-tightening grip. No, Finance would not welcome the scheme. Yet who, after all, comprise Finance? A few, a very few people numbering thousands at most, most of whom, being monetary experts of outstanding ability, would quickly find themselves in highly lucrative positions, where doubtless they would serve their country's and incidentally their own proper interests in magnificent fashion. We need not fear that they will starve. Nor is it proposed to chop their heads off.

This last consideration brings us to the Reds. We are afraid we cannot supply militant communists with excuses for knocking crowns off Kings and despoiling their fellow men, and they will find none in the proposals nor any reason for running amok in orgies of killing and confiscation. In fact, all will be disappointed who rely for political and economic salvation upon force and upon vengeance wreaked on those who in their opinion are better off than them-

selves. In this category one cannot of course include every Socialist and every member of the various Labor Parties, but it is quite safe to say that Socialism as a political party would look with very lukewarm approval on a scheme which aimed not only at making the poor man rich but *also the rich man richer*. MORE FOR ALL on a banner or election poster would not look nearly so well or draw so many votes as MORE FOR US. For we must remember that Socialism as a political Party maintains its popular hold over the masses chiefly by keeping class hatred controlled but simmering, with promises of eventual class warfare. Now it is precisely this feeling which our remedy would tend to remove, so that the adoption of the latter would gradually blunt the Red's most effective weapon.

No Nationalization, No Confiscation

Though it has been stated already, it cannot be too emphatically affirmed that the scheme here adumbrated neither involves nor contemplates either the Nationalization of Banking or the confiscation or even the suppression of the existing private banks or of their capital or of their present control. The objection is unanswerable against Nationalization, whether brought about by peaceful permeation or by violence, that the control of the tremendous power of Money-credit cannot safely be entrusted to politicians, amateur or professional. The temptations to corruption, already sufficient, would in all probability be irresistible. In respect of Nationalization,

therefore, the proposal of reform here outlined may be said to be a direct challenge to all the collectivist and socialistic schemes anywhere current.

Nor again does the scheme propose or involve any super-control, displacement or replacement of the banks as they now exist and function. The banking system as it now exists is a triumph of human organization; its working and personnel are as nearly perfect as anything human is likely to be. To propose confiscation or a new personal control, even by archangels, would be an act of blind folly such as only bolshevik idealists could dream of. No, all that is defective in the existing banking system is the absence of a proper and clearly defined social and economic function; and this function, as suggested in the scheme, could be perfectly discharged without involving any other change in the existing system than the substitution of social and individual service for the present purely individual service. So far, in fact, from contemplating the supersession of the existing banks, the scheme proposes for them a service worthy their character and organization,—the agency for the administration, in the interest of the whole of society, of society's financial credit (or money) as completely representative of society's real credit (or wealth in Ruskin's sense).

Apart, however, from Finance and militant Reds, numerically insignificant both, there is no member of the community, no man, woman or child, who would not benefit by the adoption of the proposals; such benefit being immediate, permanent, and increasing.

CHAPTER ELEVEN

WHY THE REMEDY IS NOT ACCEPTED

The vision prosperous of what would flower from our economic healing is a fit subject for contemplation. No treader on Parnassus or denizen of Delphi, however, one leaves the description of it to the poet and the seer. At the moment it is more profitable to enquire why, if the proposals give promise of such healing, they are not forthwith investigated; and if found right, applied; if wrong, denied. Such an enquiry leads us into many paths.

Vested Interests

Briefly, those willing to make the change are powerless to do so, while those having the power are unwilling. Included in the latter are vested interests of all kinds and of these Finance is the chief. By now we know what Finance's interests are in the *status quo,* and here it is only necessary to point out that it easily maintains them by its control of the Press, of Parties and Legislatures, of the film, the radio, and the rest of the institutions which manufacture or direct popular thought. If anyone doubts the tacit conspiracy by which the Press subserves Finance (often unconsciously no doubt) let him try to get an

article or letter suggesting at least the airing of a radical analysis of the economic system accepted by any journal or magazine of wide circulation and repute. He will find it impossible, though the reason can hardly be that such matters would not interest the reading public. Regarding the attitude of political parties in general to the New Economics, this has been well put by a writer in the *New Age*. The revelations implicit in the Douglas analysis, he says, "are boycotted by all parties because if made it would be obvious that the present power of Democracy is limited to a choice between various types of Oligarchy, all of them equally subservient to the ultimate power of a money monopoly. The truth about the political parties is that they are all powerless and act only by grace of the money power; and that is a truth that none of them if they value their bread and butter cares to reveal." Did any party reveal it, and press on to shout it from the housetops, the stock of political parties would tumble all round. We need hardly wonder at the absence of such suicidal quixotism. Many have very humanly refused thus to foul their own nests during the last few years. An eminent ecclesiastic whose views on the New Economics of Douglas were known to be favorable answered a correspondent who had upbraided him for not proclaiming what he believed to be the truth, by saying that apparently he, the correspondent, did not "appreciate the difficulties of his (the ecclesiastic's) position." Then, a certain very big big-wig wrote to a Minister of one of the post-war British Conservative Cabinets to the effect that though the Douglas

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analysis might be sound and the proposals practicable, yet the Minister could take it from him that no Government which advocated them would last five minutes. Which makes it fairly clear, coming from such an experienced quarter, that no Government is likely to advocate them.

It is not so much, then, that no one in authority knows Douglas as that everyone with a job to lose is constrained to avoid his mentioning the fact in public. This consideration makes many things abundantly clear. It explains, for instance, why the Committee set up by the British Labor Party to examine Major Douglas' Draft Scheme for the Mining Industry, when every other plan had failed, dropped it like a hot coal before completing their enquiry. For consider the personnel of the Committee; it was composed in the main of men already committed to other economic theories and remedies and *who depended for their bread and butter upon advocating them*. How could they afford to throw themselves out of their own nests? Very naturally Major Douglas declined the Committee's invitation to attend its meetings; and on this ground alone he was justified. The history of the Committee is related by Major Douglas in a little book called *These Present Discontents and the Labor Party and Social Credit*. After sitting for eighteen months the Committee announced its own remedy without disproving Douglas, stating baldly that it did not accept the A + B Theorem but carefully omitting to say why. To crown the travesty the Committee was "advised"

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in its admittedly intricate deliberations by an "impartial" *banking expert*.

Old age, too, has a large subtle interest vested in things as they are. A creature of habits, a man finds it both difficult and distasteful to change them. This applies to his thoughts as well as his conduct, if indeed the two can be separated, and growing older, his views on economics or anything else will alter as little as his signature. Besides, an elderly man resolutely declines to be taught to suck eggs. And discreetly, too, the lesson being undignified. Rather than risk the shock of discovering that what he has believed in for fifty years is no longer true he will refuse to investigate what may be under his very nose or even acknowledge its presence. There is something to be said for this attitude, for if he misses the truth he at least retains his self-regard and keeps on the even tenor of his ways. Havelock Ellis makes a remark somewhere to the effect that the older men grow the less are they concerned with or interested in delights, problems, or exercises of the intellect, and the more are they concerned with only sensations. Perhaps the extreme expression of this truth is the old man who falls asleep after lunch and dreams of dinner. Mr. C. E. M. Joad castigates old age in a passage that makes capital reading for youth. "A mistake," he said, "which all societies have made is to entrust the management of their affairs to the old. Old men are naturally more vindictive, bad-tempered, malevolent, and narrow-minded than young ones. They are easily provoked to disapproval, and dislike more things than they like. Having for the most part lived their own lives, they have nothing left to do but to interfere in the lives of others. They form the governments, misrepresent the people whom they oppress, preach to the people whom they exploit, and teach the people whom they deceive. They mete out rewards and punishments, sentence criminals to death, direct businesses, make laws which they have no temptation to disobey and wars in which they do not propose to fight. If the country were handed over exclusively to the governance of men under thirty-five, and everybody over that age were forbidden to interfere on pain of being sent to the lethal chamber, it would be a happier and a better place. Unfortunately the young men are too busy trying to make a living in the subordinate positions to which the old men grudgingly admit them to have the time and energy to interfere with other people."

In the same way that youth is more amenable than old or even middle-age to change and new ideas, so single men are able to think more than married men, and poor men more than rich ones. They can afford to. The things that stop men thinking are wives and children, homes and property, stocks and shares. All these carry a burden of responsibility with them, and though heavy the bearer at least knows its weight, and he shoulders it in preference to changing it for another which, for all he knows, may be heavier. Then, too, as soon as he has accumulated a decent share of this world's goods his interest in the system by which he got them ceases, his one and only anxiety being not to change the system but to hang on to the

goods. His motto is, "What I have, after deduction of income-tax, I hold." Again, discontent and poverty spur a man on to find escape from them, whereas billiard rooms and Italian terraces suggest nothing to their owners so much as the advisability of leaving well enough alone.

Another vested interest is provided by the Churches. These may be viewed from two points of view, the shepherd's and the sheep's. From the shepherd's standpoint the policy of any priesthood is that of control sanctioned by the fear of a deity. How then shall a priesthood maintain its domination when this foundation of fear is being removed increasingly? When men find out, as the Douglas analysis would encourage them to do, that they can achieve complete material security by their own efforts and conquests over nature, more and more easily, they will depend less and less upon supernatural help. If, for instance, men find that they can make the rain fall by manipulating forests or by shooting at the clouds from aeroplanes it is unreasonable to expect them to pray to God for it. They will go to the hangar instead of to church, and will find that God does not become a jealous God on this account. Dependence of the sheep upon the shepherd depends primarily upon a bare sufficiency of pasture and the ability of the shepherd to persuade his flock that he alone can lead it to what pasture there is, and that without him it would perish in a wilderness of stones. How can this dependence continue to be as absolute once the sheep realize they can manufacture as much pasture as they want? This is why priesthoods throve in the ages of

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Real Scarcity but are not so happy to-day. For if the churches are not full it is largely because man is finding out that he could, given the chance, ensure for himself sufficient food, clothing and shelter without only praying for them.

But it takes time. And such is the weight of habit, that most people still placidly believe that the few goods they do possess have come to them through the twin blessings of God and the existing economic system. Similarly they believe that the many goods which they want but haven't got are withheld, not through any remediable defect in the System, but because of their own deficiencies and trials, called crosses, which God has seen fit to lay on them. In other words, they thank the System and God, in that order, for the crumbs they do get, and blame anything except the System, but especially themselves and God, for the loaf they have to go without. If they are "miserable sinners" they console themselves with the reflection that, after all, "God's will be done." Sometimes the System's faults are brought under their very noses by some particularly glaring symptom of breakdown, such as a coal strike. Yet even then they do not see the defects, and are content to attribute all their misfortunes to the coal strike, glad for the moment to give God and themselves a rest. Always they fail to ask what caused the coal strike, and fasten on to what is merely a consequence and not the cause. Thus though they may be hunting in the right neighborhood they have no eyes for the fox itself, which remains under cover in a preserved area in a silence that is truly golden.

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As long as men are of this habit of mind they will find it difficult to work out their economic salvation; and the churches, conservative by instinct and design can and will do nothing to change it.

Our Hostility to New Things

People dislike new things intensely, their dislike being not of the things themselves necessarily so much as of their novelty. Mr. Joad, remarking on this feeling, says: "Whether it be a new morality, a new sonata form, a new way of wearing the hair, a new kind of corset (or none at all), or a new saviour of mankind with which he is presented, man's natural and instinctive reaction is one of antagonism. The antagonism is provoked not by any intrinsic demerit in the thing that arouses it—indeed in 50 or 100 years' time it is embraced with acclamation as the last word in orthodoxy or good form—but simply by its newness. The suggestion that any way of Life, of thought or of conduct can be better than that which they have hitherto followed wounds people's self-respect, and some time must elapse before they can overlook the offense." Indeed, we do but see ourselves mirrored in the attitude of the Council of Clergymen which met in Salamanca in 1486 to examine the views of Christopher Columbus, when a considerable portion of the Council, we are told, held it to be grossly heterodox to believe that by sailing westwards the eastern parts of the worlds could be reached. Heterodox, certainly, in those days; but true. We execute, banish or execrate our prophets and reformers on

the principle that only what is already established is sound and true and good. As a seventeenth century writer put it, a new thing only becomes orthodox when it has "passed into a principle and makes a constitution of mind and is seen in practice."

There comes a point, too, when good news, quite apart from its newness, is too good to be believed. People distrust it even more than they dislike bad news. Having had some hundreds of thousands of years practice, we know how to deal with bad news by now, and steel ourselves to bear it. About very good news, however, we always suspect something of a catch, and have yet to learn how to brace ourselves to receive the shock of it. "Too good to be true" is a phrase from the marrow of our thoughts but its fellow "Too bad to be true" is too much a stranger to have passed into the common currency.

CHAPTER TWELVE

SIGNS OF SEED

Hitherto the reception accorded Major Douglas' analysis has been on the whole one of ominous silence. In itself this is a good sign. It means that Finance considers that what he stands for is formidable enough to keep silent about. This weapon of disregard, drawn by Finance only against foemen worthy of its steel, is perhaps the strongest in the armory, it being very difficult to knock a man out if he refuses to step into the ring. Not only is silence more powerful than contradiction, it is much safer. Hot dispute attracts a crowd and the awkward truth may emerge from the argument in raised voices for all to hear. None the less, Douglas will out. The seed is already manifest in many ways and many lands; in the Bill to nationalize the Bank of England (shelved, by the way, because it affected private property rights); in the program of the Nationalist Party; in the League of the Kingdom of God; in the general economic discontent; in the writings, in England, of too many people to mention by name; in France, of M. Chastenet and others; in the U. S. A., notably of Mr. Waddill Catchings, a former President of the Central Foundry and Sloss Sheffield Steel and Iron Companies, and director of many industrial corpo-

rations, and of Mr. W. Trufant Foster, a director of the Pollack Foundation for Economic Research and formerly President of Reed College; in the Economic Freedom League; in periodicals ranging from the two-penny *Age of Plenty* to the redoubtable *New Age* in

England, *Freedom* in Australia, and the *Western Producer* in Canada; in the motion before the Canadian House of Commons in 1925, "That, in the opinion of this House, it is not in the interests of the country at large that the privilege of issuing currency and of controlling financial credit should be granted to private corporations"; in a cognate motion before the same House in 1928; in a resolution carried by the Scottish Trade Union Congress requesting the appointment of a Royal Commission to inquire into the banking system; in the Finance Enquiry Petition in England in 1926, on the Committee of which were to be found such men as the late J. St. Loe Strachey, Professor Soddy, H. G. Wells, Sir Oliver Lodge, G. K. Chesterton, the Chairman and Secretary of the Society of Friends Committee on War and Social Order, a K.C., a D.D., 3 M.P.'s, and at least one prominent industrialist; in the number of signatures obtained to this Petition; and in many other ways.

The best soil for the growth of the seed sown by Douglas is the general feeling now in the air that a change of some sort in our economic system is being gradually forced on us by events and is therefore desirable. The feeling, too, that such a change can be carried out without bloodshed among our fellows or blasphemy against our gods seems to be slowly

gathering force. Always we must remember that systems were made for men and not men for systems. When these begin to encumber us and cease to serve us we must alter them. It should be possible to do this. "I believe," writes Mr. J. Taylor Peddie, "we can bend the principles of economic science to our will, that they are there to serve our purpose, and not that men shall suffer from the application of them." If we take this as our evolutionary text in economics we must take what Lord Inchcape says as a revolutionary warning. "A state can be laid low just as effectively by wrong ideas as by an invading army. . . . There is no agency of destruction known to the chemists that is half as formidable as the T.N.T. of bad economics." Obsolete economics are bad economics. Finance is firmly entrenched behind traditional success based on past conditions. To-day it is faced with a fundamental change in those conditions. Will it change to meet them? For reasons already given one cannot but have the gravest doubts on this point, though people like Mr. Peddie and Mr. Keynes are optimistic, the latter writing: "If the new ideas, now developing in many quarters, are sound and right, I do not doubt that sooner or later they will prevail." There is a world in that "sooner or later," and meantime what would Mr. Keynes' comment be, one wonders, on the letter from the very big big-wig to the Cabinet Minister.

One of the great difficulties about changing this great amorphous sprawling thing we call our system is our colossal ignorance of it as it is. Even those who run it and benefit by it know very little about it.

Ruskin pointed this out long ago. "They do indeed know how they themselves made their money, or how, on occasion, they lost it. Playing a long practised game, they are familiar with the chances of its cards, and can rightly explain their losses and gains. But they neither know who keeps the bank of the gambling-house, nor what other games may be played with the same cards, nor what other losses and gains, far away among the dark streets, are essentially, though invisibly, dependent on theirs in the lighted rooms. They have learnt a few, and only a few, of the laws of mercantile economy." As for the Mother of Parliaments, it shuts up like an oyster whenever real economics catch the Speaker's eye. Thus when what has been aptly described as one of the most important and able speeches made in Parliament for many years, is delivered, no comment is made on it, no contradiction, no debate, everyone of its hearers being content to accept a financial difficulty as an insuperable one. The following extract from the speech will serve to show its tone, and for curiosity's sake we withhold the name of the speaker. "The only way in which we are going to find an outlet from our present industrial difficulties is by realizing that we have in this country, in our mining villages, in our industrial villages, in our towns and in our cities millions of people who have unsatisfied human wants, that side by side with these people we have millions of pounds worth of goods for which we cannot find a market, that if we can get rid of these goods we have again millions of people prepared to replace them with other goods. Surely it is not necessary, if

we have any statesmanship left, that Britain should be compelled to starve in the midst of plenty." That is the way reality speaks: the rest is silence. One cannot wonder that on another occasion Sir Alfred Mond was moved to ask in Parliament whether England had a Government "living in Mars or in this planet, and whether it worked *in vacuo,* quite detached from economic affairs." Industrialists are not interested in the economic system except to squeeze what they can from it, elected representatives are not interested in it at all, and financiers are interested in it only to keep it as it is, being as ignorant of its nature as everyone else. "One is warned," Mr. Keynes wrote in 1923, "that a scientific treatment of currency questions is impossible because the banking world is intellectually incapable of understanding its own problems. If this is true, the order of society which they stand for, will decay." Mr. Keynes, however, does not believe this, for he goes on to say that "what we have lacked is a clear analysis of the real facts, rather than ability to understand an analysis already given." It is submitted that Douglas has now furnished the "clear analysis of the real facts" Mr. Keynes asks for.

Supposing, however, we know enough about our system to know that it must be changed, how would we go about it? The revolutionary says it must be *ended* because it is obsolete, and the diehard, equally determined, says it must be *retained* because it was good enough for his father and grandfather before him. Between these two extremes the New Economics maintains that the system can be *mended.*

Douglas

What of the man who has sown the seed? A bespectacled Ishmael with a red beard who prowls round the Bank of England with a bomb in his pocket? Hardly. He tells a story of how the Canadian Government must have expected some such red-tied person when the Opposition invited him to Canada to give evidence upon the motion before the House of Commons referred to above. The

Ministers were rather taken aback, therefore, when they found an alert, business-like Scotsman, a cousin of Lord Weir, a Cambridge University man and a gentleman, cross-examining them and successfully tying them up in knots. The Inquiry ended, and finding he had a few days to put in before his boat sailed, his hosts asked Major Douglas what he would like to do. He replied that above all things he would like a few days fishing. Accordingly he very soon found himself in Toronto in a shop famous for its trout flies. The proprietor, on learning his customer's name, said, "What, not the man who's been giving evidence in Ottawa before the Government?" and on being told that Major Douglas was none other, remarked with a twinkle, "Well, if you really want some good fishing I advise you to tell some of the bankers round here that you're in town, and I'll wager they'll be only too pleased to offer you fishing a great many miles from anywhere!"

First and foremost Douglas is a Scotsman. To look at him he might be a gentleman farmer. His steady eyes, and ruddy cheeks, and jovial personality are

those of a squire. A delightful host, his hospitality is of a kind rare in these hurried times, a hospitality in which one basks at ease from the first. And his conversation matches his wine. Not that it is sparkling, for this suggests brilliant conversation for brilliant conversation's sake, but, like good wine, it has a bouquet about it. Living in the country, Douglas is an adept at doing things for himself, with his own hands. A keen fisherman, as we have seen, he also sails his yacht single-handed in the Channel off the coast of France. Then, he laid down his own hard tennis court; and, just to keep his hand in, constructed an engine, for by profession Douglas is a civil engineer.

He has what is probably one of the best swept minds functioning to-day. It penetrates, too, without effort or conceit beneath the fashions and foibles of the times to the permanent things. He will let drop such a remark as that too much store is set on human life and not enough on human happiness, as though he were saying he thought to-morrow would be a fine day. In the *Commonweal,* the excellent Catholic weekly, published in New York, the one-time editor of the *New Age,* Mr. Orage, relates the impression made on him by Douglas and his analysis. "He had been assistant-director of the Government aircraft factory during the war: he was a first rate engineer; he had encountered financial problems practically as well as theoretically; and he appeared and proved to be the most perfect gentleman I have ever met. His knowledge of economics was extraordinary; and from our very first conversation everything he said con-

cerning finance in its relation to industry—and, indeed, to industrial civilization as a whole—gave me the impression of a master-mind perfectly informed upon its special subject. After years of the closest association with him, my first impression has only been intensified. In the scores of interviews we had together with bankers, professors of economics, politicians, and business men, I never saw him so much as at a moment's loss of complete mastery of his subject. Among no matter what experts, he made them look and talk like children.

"The subject itself, however, even in the hands of a master, is not exactly easy; and, in fact, it compares in economics with, let us stay, time and space in physics. By the same token, Douglas is the Einstein of economics; and in my judgment as little likely to be comprehended practically. In other words, a good deal of sweat is necessary to understand Douglas; and, with our absurd modern habit of assuming that any theory clearly stated must be immediately intelligible to the meanest and laziest intellect, very few will be the minds to devote the necessary time and labor to the matter. I was in all respects exceptionally favorably placed to make a fairly quick response. I had time, and from my long experience of literary geniuses, almost illimitable patience; I was vitally interested in the subject, having not only exhausted every other, but been convinced that the key to my difficulties lay in it; and, above all, Douglas himself was actively interested in my instruction. He said many things in our first talk that blinded me with light; and thereafter I lost no opportunity of

talking with him, listening to him talk, reading new and old works on finance, with all the zest of an enthusiastic pupil. Even with these advantages, it was a slowish business; and my reflections on the stupidity of the present-day student of Douglas are generously tempered by the recollection of my own. It was a full year from beginning to study his ideas before I arrived at a complete understanding. Then all my time and labor were justified. . . . Certainly there is no lack of light on the subject to-day; but only the usual poverty of eyes and understanding." This rather long extract is good ballast for the youthful enthusiast, but he must not follow Mr. Orage too far, for disappointment and many years of weary experience have turned the latter towards a pessimism that now colors all his conclusions. A few years before—the passage quoted above appeared in 1926—his tone was more hopeful and practical, and in 1920 we find him saying: "What is needed on the one hand is a sufficient number of people to understand the Scheme and to put it into operation; and, on the other hand, the approval by the community at large of its results in practice. The results are certain if the Scheme be once adopted. But so far, no Executive of any Trade Union, Employers' Association, or Government department has sufficiently considered the Scheme to pass a judgment on its merits. Sooner or later, however, the time will come when such a scheme will be all that stands between Chaos and Order in industry." In so far as the remedy proposed by Douglas is eminently practicable, it would, if adopted, be brought home to the bosoms and business

of each one of us. Wherefore Douglas is perhaps the Darwin rather than the Einstein of economics: even the stupidest of us being interested in apes and always ready to argue about evolution as something vitally concerning all of us, whereas Relativity appears to be so far removed from our daily lives, our daily bread, that we willingly let Einstein move about in the stellar spaces unrefuted.

If there is one thing more certain than another it is that Douglas is no fanatical crank. A crank being a person whose theory is based on premises either insufficient or not in touch with reality, and a fanatic one who rides his theory too hard, Douglas bears none of these marks upon him. If ever there was a closely reasoned theory based solely on facts and bent to practical conclusions it is his. "Discerned in retrospect as having been one of the great contributions of re-oriented Scottish genius to world-affairs" is the way a fellow Scot regards Douglas. For ourselves, we see him as De Quincey, waiting as he tells us for a "new law and a transcendent legislator," saw Ricardo more than a hundred years ago. "Thou art the man!" he exclaimed. "Wonder and curiosity were emotions that had long been dead in me. Yet I wondered once more—wondered at myself that could once again be stimulated to the effort of reading; and much more I wondered at the book. Had this profound work been really written during the tumultuous hurry of the 19th century? Could it be that an Englishman, and he not in academic honors, had accomplished what all the universities of Europe, and a century of thought, had failed to advance by one

hair's-breath? Previous writers had been crushed and overlaid by the enormous weights of facts, details, and exceptions; Mr. Ricardo had deduced, *a priori,* from the understanding itself, laws which first shot arrowy light into the dark chaos of materials, and had thus constructed what hitherto was but a collection of tentative discussions into a science of regular proportions, now first standing upon an eternal basis."

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The world, it has been said, belongs to the enthusiast who keeps cool. If so, Major Douglas is well fitted to claim it. Unfortunately, however, the saying omits to say when the title-deeds will be handed over. The date must be fixed by mankind.

THE END

[Editor's Note: In 1933 Maurice Colbourne published in the United States of America his book *The Meaning of Social Credit* (a revised edition of *Economic Nationalism*) which was a development of this earlier work, *Unemployment or War* published in the United States in 1928. Colbourne made his name known by his "vivid bare-fisted" writings which include *The Wicked Foreman* and *The Real Bernard Shaw*.]