THE MYSTERY OF THE TRADE DEPRESSION

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

BY

FREDERIC E. HOLSINGER

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

"There must be something utterly wrong."—*His Royal Highness the Prince of Wales at the British Industries Fair on February 18, 1929.*

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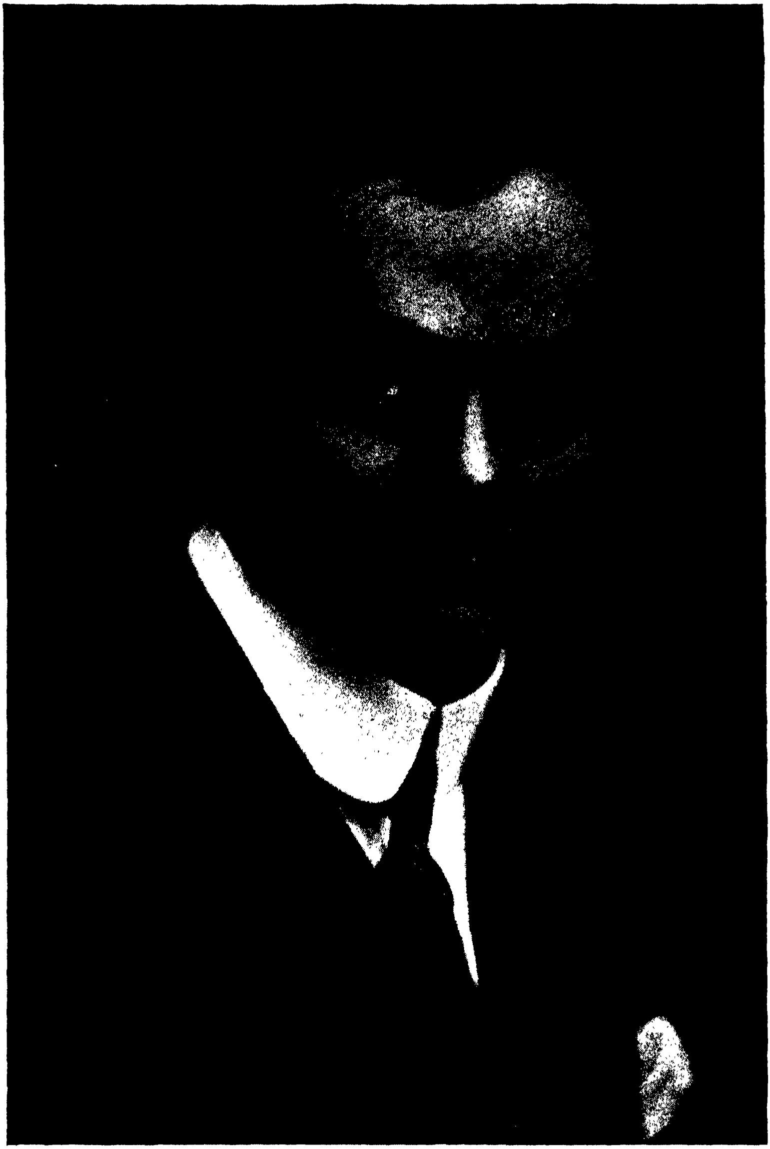

[*Clifton, Bombay.*

Frederick R. Holsinger.

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PREFACE AND SUMMARY OF THE ARGUMENT

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

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

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

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

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

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

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

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

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

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

Economic welfare and trade—both internal and foreign—are realities. I have experienced no difficulty whatever in understanding or in writing of those realities in the plain and simple language in which alone one can understand anything at all. My chief difficulty throughout the whole of the inquiry has been to give some organized shape or form to the mass of contradictions that the practices and the theories of the capitalist system constitute for presentation against the background of the realities of economic welfare and trade. No one who finds the contradictions in the capitalist system strung upon a single thread in this book can form any idea of what that achievement has cost me in thought and labour. I firmly believe that the economists themselves will be astonished to find all their unassociated conceptions swept into a single comprehensible conspectus.

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

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

Every word is used everywhere with the same meaning or signification. There are no set definitions, but every term used is explained. Every individual is referred to every time by name. Every book, every newspaper, every source of information is given its full title every time. Everything is every time referred to by the same term. There is no scope whatever for doubts or uncertainties. All I have learnt since my fifteenth year I have learnt entirely by myself. I know all the little perplexities that puzzle one at the beginning of a new subject. This book embodies over twenty years' experience of solitary study, and I, therefore, fearlessly submit it to men and women who "know nothing about "Economics."

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

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

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

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

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

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

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

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

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

In the thirty-first and final chapter I outline my plan for the re-organization of human society upon the basis of individual liberty, personal property and private enterprise so as to avoid the disastrous consequences of the capitalist system. I am fully conscious of the disadvantage of submitting a constructive plan only in outline. It was only after much anxious thought that I finally decided to put the plan in outline in this book. I should have preferred to submit the plan in a form in which criticism would have been anticipated. The plan will be elaborated in a book, titled *The Principles of Individualism* or *The Individualist State.*

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

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

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

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

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

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

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

I appeal also, with no less sincerity, to the Socialists. The broad economic ideal of Socialism is the broad economic ideal of every man and woman of intelligence, imagination and feeling. That is why men and women of high intelligence, strong imagination and deep feeling, who see no hope of the realization of their idealism under the capitalist system, are drifting, in increasing numbers, into Socialism. That was the explanation of the Socialism of John Stuart Mill in his later days and that is the explanation of the Socialism of many distinguished men and women of our own time. Upon the principles and the plan outlined in this book, I am convinced, the good Socialist and the honest individualist can shake hands and terminate an unnecessary conflict. I am willing to demonstrate that everything that the most fervent Socialist aspires to achieve under Socialism can be realized "in our time" under the plan outlined in this book, even as complete political liberty and constitutional government have been realized under a limited monarchy.

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

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

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

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

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

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

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

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

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

The economic programme of Mr. Lloyd George is the work of Professer Maynard Keynes, who has, in his published works, admitted that the accumulation of fixed capital, *by the sacrifice of the economic welfare of the working classes*, is the main function of the capitalist system. The economic programme of Mr. Lloyd George will force up the price level and effect the maintenance of a few hundred thousand of those now unemployed by robbing those who are now employed. It will complete the economic ruin of the people of Great Britain. There is no fundamental difference between the economic programme of Mr. Lloyd George and the building of the Pyramids in ancient Egypt. If the Liberal Party is returned to power at the General Election, the Liberal Party will still further fasten the curse of Egyptian helotry upon the masses of the people of Great Britain.

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

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

FREDERIC E. HOLSINGER.

Le Raincy, France.
April 11, 1929.

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

PRELIMINARY REMARKS

The Case for an Inquiry into the Present Economic Situation

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

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

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

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

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

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

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

That might as justly be said of the present day as of the days of Adam Smith. In 1776, the population of Great Britain was less than ten millions, and foreign trade was an utterly insignificant factor in the economy of Great Britain.

> In the eighteenth century foreign trade was of so little importance to the majority of the inhabitants of England, that, but for some importation of wheat, the whole might have been destroyed without making any appreciable change in the habits or wealth of the people.
>
> The rich would have been deprived of some luxuries, the poor of very few, a small class of traders would have been affected and an unimportant branch of revenue destroyed; but no other result would have followed. . . .
>
> Till the nineteenth century we were an agricultural nation, even exporting corn to the Continent. . . .
>
> Before 1790 the only foreign goods we imported on a large scale were silk, hemp, wine and tropical produce.
>
> Till the growth of the cotton trade, which may be perhaps considered to date from 1750, woollen cloth was our only export of importance.—*Arthur L. Bowley*, "*England's Foreign Trade in the Nineteenth Century*," *Pp. 5–7.*

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

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

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

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

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

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

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

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

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

The United States of America has not been able always to maintain full production or always to provide full employment for its people. The works of Messrs. William Trufant Foster and Waddill Catchings of the Pollak Foundation for Economic Research have brought to light in vivid colours the enormous losses that the American people have sustained by the recurrence of periods of economic paralysis.

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

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

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

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

Secondly, why full production and full employment in the industrial countries of Europe should be dependent upon an excess of exports over imports.

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

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

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

It is, surely, very remarkable that the President of the Association of Chambers of Commerce of the first trading country in the world should feel that he and "all who are "interested in the subject" need an exposition of "the "meaning of the balance of overseas trade" in "non-"technical terms." One would be inclined to suppose that the members of chambers of commerce would know and be able to interpret all the facts of international trade and that the technical terms employed would be well within their comprehension. The frank terms of Sir Gilbert Vyle's letter show that that is not the position.

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

Adam Smith says:

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

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

Since the economic conditions known as the depression in trade set in in Europe in 1921, merchants, in common with other people, have argued, as merchants used to do in the days of Adam Smith, that foreign trade brings wealth into a country and that laws at home, especially taxation laws, and laws abroad, especially tariff laws, have "hindered it from bringing so much as it otherwise "would do." Of the balance of trade—"this highly "important subject," as Sir Gilbert Vyle calls it in his letter to Mr. Samuel—even the members of the Association of British Chambers of Commerce are "conscious "to themselves that they know nothing about the matter."

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

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

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

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

Both the balance of trade and the whole subject of foreign trade have been completely neglected in economic literature. There are not half a dozen volumes, devoted either entirely or in considerable part to the economics of foreign trade. Since the works of Adam Smith, Ricardo and John Stuart Mill there has been no investigation whatever of the circumstances in which foreign trade is beneficial to a country. It is assumed that foreign trade must, in all circumstances, promote the economic welfare of a country. In those works that are generally entitled, *Principles of Political Economy*, all the space devoted to foreign trade is a brief chapter or two. The works of Marshall, Nicholson and Taussig are examples. Professor Gustav Cassel gives no definite place to foreign trade in *The Theory of Social Economy*.

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

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

Economic research has been largely subsidized out of public funds and the public-spirited donations of private citizens. The economists have, therefore, apart from the moral responsibility involved in their pursuits, a distinct obligation to the community in the hour of its distress. But since the depression set in in 1920 employers and employees alike have looked in vain for enlightenment from the citadels of economic learning. If the investigation of economic truth rests with the Professors of Economics in the Universities of Europe and America, that trust has been shamelessly betrayed. A lecture upon the production and the distribution of wealth in any university today can possess no reality. It is a stupid farce, an indecent mockery. If the economists are unable—and they confess they are unable—to explain the present economic paralysis, the time has certainly arrived for them to abandon their rôle as the economic instructors of mankind.

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

> The great slump, though there are signs of improvement, is not yet (1923) over. *The fundamental thing needed to dissipate it*, over and above all palliative measures, is, if our analysis is right, *a recovery of business confidence.*
>
> As Dr. Marshall has said in another context, the greater part of the evil associated with an industrial depression "could be re-"moved *almost in an instant* if confidence could return, touch all "industries with her magic wand and make them continue their "production and their demand for the wares of others." ("*Principles of Economics,*" *P. 711.*). . . .
>
> The moral is plain. Nearly five years ago the war ended. Since then there has been an *interregnum* of neither war nor peace. Let the *interregnum* also end.—*Professor A. C. Pigou*, "*Essays in Applied Economics,*" *P. 40.*

It is many years since the "*interregnum* of neither "war nor peace" has ended, but the slump remains. Professor Pigou has, therefore, had ample time to decide whether his analysis was right or not. But neither Professor Pigou nor any of his fellow-economists in the seminaries of economic learning and research have brought forth any explanation of the failure of business confidence to emerge from its secret enclave "touch all "industries with her magic wand and make them continue "their production and their demand for the wares of others." The wisdom of the high priests of Modern Capitalism has departed, and their sense of the ridiculous too.

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

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

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

The Economic Section of the League of Nations, which has been in existence now for close on a decade, has every advantage with which any such organization could be endowed. The Economic section of the League of Nations has been able to draw upon all the sources of information and upon all the economic talent of the world and has had abundant funds at its disposal. The Economic Section of the League of Nations recognizes that it has precisely such a responsibility as Sir Josiah Stamp has indicated. What has it achieved?

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

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

The Preparatory Committee of the World Economic Conference prepared neither a programme of investigation nor an agenda of any kind for the conference. At the first plenary session of the conference the delegates occupied themselves, during four days, in airing individual opinions. The "general discussion," as the speech-making was described, was led by Professor Gustav Cassel. The theme of his speech was the export of goods on credit from the industrial countries of Europe to the new lands like Australia and the Argentine. When Professor Cassel, subsequently, pressed his views upon the conference he was told that the theme of the great oration with which he had opened the "general discussion" at the first plenary session of the conference had been entirely outside the scope of the conference! The president of the conference had, however, not called Professor Cassel to order.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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THE MYSTERY OF THE TRADE DEPRESSION

CHAPTER I

FOREIGN TRADE

The Constituent Elements

THE transactions of the foreign trade of a country, like the transactions of the internal trade of a country, are carried out by individuals, and the goods and services that enter into foreign trade are the goods and services that enter into internal trade.

When a manufacturer in Birmingham supplies a factory in London with a machine, the transaction is part of the internal trade of Great Britain. If the same machine were shipped to India or to the Argentine, it is a transaction of foreign trade.

When a Belgian who lives in Erquelines, a station on the French frontier of Belgium, travels from there to Herberthal, a station on the German frontier of Belgium, the service that the railway renders the Belgian is a transaction of internal trade, because both Erquelines and Herberthal are within the territory of Belgium. When a Frenchman travels from Paris to Berlin through Belgium, the service that the Belgian railway renders the Frenchman between Erquelines and Herberthal is a transaction in the foreign trade of Belgium, and that transaction constitutes an export of services from Belgium to France.

Every country engaged in international trade periodically publishes returns of the goods imported or brought into the country and of the goods exported or sent out of the country. Such returns of foreign trade do not constitute a complete account of the foreign trade of the country, because every country either exports or imports services, in addition to exporting and importing goods. Calculations of the amount of the total imports or of the total exports of a country must include the services it receives from, or renders to, other countries. Goods constitute visible trade, and services are described as invisible trade.

The importance of the item of services in the foreign trade of a country is seen in the foreign trade of Great Britain. The value of the total imports of goods into Great Britain is, approximately, £1,100 millions a year, and the value of the total exports of goods is £700 millions a year. It is exports of services that enable Great Britain to bridge the gulf between imports and exports of goods. The British mercantile marine does half the carrying trade of the world, and the services that Great Britain exports to other countries amounts to a very large sum in each year.

The services that foreign visitors to a country receive in that country form a part of its export trade. Thus, France is a large exporter of services, because every year hundreds of thousands of people from all parts of the world visit France. In payment of the services that American tourists, for example, receive in France, the United States of America exports to France every year millions of dollars' worth of motor cars, cinema films, cash registers, clocks and other goods.

The services that a country imports and exports, it will thus be seen, are varied in character. They do not admit of accurate measurement like the imports and the exports of goods. The value of the services that a country imports or exports has, as a result, to be estimated. There is a margin of error in the estimates of services, but the available estimates are sufficiently accurate for the purposes of an analysis of international trade. The accurate calculation of foreign trade in services is practicable without adding greatly to the complexities of international intercourse, but, unfortunately, it is only in a very few countries that the systematic calculation of the invisible trade has even been attempted.

Trade, whether internal or international, is essentially an exchange of goods and services. Thus, Great Britain exports manufactures and the services of its mercantile marine and imports such raw produce as wheat, tobacco, cotton and jute. India exports raw produce and imports manufactures and the services of the mercantile marines of Great Britain and of other countries, because India has no mercantile marine of its own.

In the calculation of the foreign trade account of a country services are just as important as goods, because it is the money value of each item of imports or of exports that is taken into account. Exports of services of the value of £100 millions from Great Britain pay just as well for imports of foodstuffs, raw materials or other goods as £100 millions of manufactures. India is one of the world's largest importers of services, and India is obliged to export raw produce in payment of both the services and the goods that it imports.

Despite the clarity of the facts, there is, unfortunately, a great deal of confusion on the subject. People have got into the habit of thinking that the only useful exports are the exports of goods. The only purpose to which the exports of services can be put is the payment of imports of goods. If the countries from which Great Britain imports foodstuffs, raw materials and other goods prefer to receive payment in the form of the services of shipping companies rather than in the form of manufactured goods, no difference whatever would be made to the foreign trade account of Great Britain.

International trade is greatly influenced by the seasons, and the foreign trade of a country may show large fluctuations. During certain months of the year agricultural countries send out the bulk of their produce, and during such periods there is an excess of exports over imports. During the rest of the year the imports greatly exceed the exports. Such fluctuations might cancel each other, and at the end of the trading year equilibrium might be established between exports and imports. In the same way an excess of exports in one year might be cancelled by an excess of imports in the next year or two.

The foreign trade of very few countries shows even a state of approximate equilibrium between the total exports and the total imports. The total exports either exceed or fall short of the total imports, year after year, giving rise in each year to what is known as a balance of trade.

An excess of exports over imports is described as a favourable balance of trade.

An excess of imports over exports is described as an adverse balance of trade.

> When the merchandise exports of a country exceed its imports, the country is said to have a "favorable balance" of trade. When its imports exceed its exports, the balance is said to be "unfavorable." . . .
>
> The general notion underlying these terms is that a country gains by having dealings with other countries which are expected to bring specie in, and loses by those which are expected to take specie out.—*F. W. Taussig, "Principles of Economics," Volume I, P. 476.*

The precious metals, gold and silver, are as much goods or commodities as wheat, rice, coal, iron ore, timber, machinery or textiles, and it would be quite easy and correct to treat them as goods or commodities. So many economic and financial theories have been built upon the movement of gold and silver coin (or specie) in international trade, however, that it is necessary to consider them as they have hitherto always been considered, namely, as enjoying an independent position in international trade.

The chief function that the precious metals fill in international trade is the settlement of balances of trade. When the total exports of a country exceed the total imports there is an inflow of the precious metals, and when the total imports exceed the total exports there is an outflow of the precious metals.

From gold-producing countries there are regular exports of freshly-mined gold, and such exports of gold cannot be distinguished from exports of wheat, wool or iron ore. Occasionally, gold-producing countries are compelled to supplement the exports of freshly-mined gold with exports of gold coins withdrawn from the banks or from circulation in order to settle an adverse balance of trade. Australia, a gold-producing and gold-exporting country, was recently forced to supplement its exports of freshly-mined gold by exports of gold coins that had been lying in the banks. The production of gold in 1927 was less than £2½ millions. Nevertheless, the exports of the precious metals in 1927 amounted to £12 millions.

Although a country may pay for its imports of goods and services from another country by exports of goods and services, the payment need not be made directly to that country. For example, Great Britain exports large quantities of goods to India, but the imports of goods from India to Great Britain are of much less value. Exports of goods from India go chiefly to the continent of Europe, from which India imports comparatively little. The countries on the continent of Europe, therefore, pay Great Britain for a large part of the goods that the countries on the continent of Europe receive from India and in that way meet India's obligations in Great Britain. Thus, a country, the foreign trade of which shows no balance at all, may have a favourable balance of trade with one or two countries and adverse balances with all other countries.

In the eighteenth century people believed that the exports from one country should be exactly equal to or should exceed the imports from every other country. That notion is still current, for, when Great Britain broke off diplomatic relations with Russia in 1927, prominent British businessmen declared in interviews in the Press that, as Russia had been exporting more goods to Great Britain than Russia had been importing from Great Britain, the loss of the total trade would not be a disadvantage to Great Britain. If Russia exports more goods to Great Britain than Russia imports from Great Britain, Great Britain must send goods to other countries in payment of the obligations of Russia in other countries.

CHAPTER II

THE BALANCE OF TRADE

The Meaning of an Excess of Exports or of An Excess of Imports

A COUNTRY can receive compensation or payment for its exports of goods and services only in other goods and services, and when, therefore, the total imports fall short of the total exports, giving rise to a favourable balance of trade, compensation or payment is not received for some part of the exports. In other words, there remains a debt owing to the country with the excess of exports.

Until the end of the eighteenth century, a country received payment of such a debt in the precious metals, gold and silver, but since the beginning of the nineteenth century the practice has grown up of accepting the precious metals in payment of a part of such debts and converting the balance due into long-term loans on which interest is charged.

An excess of exports of goods and services in the foreign trade of a country thus represents, except to the extent to which it is liquidated by imports of the precious metals, the amount of the goods and services given on credit to foreign countries. An excess of imports of goods and services in the foreign trade of a country represents, except to the extent to which it is liquidated by exports of the precious metals, the amount of the goods and services received on credit from foreign countries.

During the nineteenth and the present century, as a result of fresh discoveries of gold in the United States of America, South Africa, Australia and Canada, the production of the precious metals has vastly increased, and the imports of gold into the industrial countries of Europe—in none of which the precious metals are mined—has been on an incomparably vaster scale than had taken place in the eighteenth century.

It is not generally realized to what a large extent the gold and silver produced during the hundred years before the World War of 1914–18 were absorbed by Europe. Gold and silver are used for monetary and for industrial purposes. Of the gold and silver used for industrial purposes Europe, unquestionably, took a larger share than any other continent. Of the absorption of gold and silver by Europe for monetary purposes Karl Helfferich, the most authoritative writer on the subject, made precise calculations.

The total amount of gold and silver held for monetary purposes in the whole world on December 31, 1913, was £2,560 millions. Europe held over half of all the gold and nearly half of all the silver for currency purposes in the whole world on December 31, 1913. The East is generally believed to be the principal absorbent of silver for monetary purposes, but even of silver for monetary purposes it is Europe that held the largest amount in 1913.

The distribution by continents was as follows:

Continent	Gold	Silver	Total
	In millions of pounds sterling		
Europe . . .	1,091	306	1,397
America . . .	535	210	745
Africa . . .	43	4	47
Australia . . .	45	2	47
Asia	111	214	325
	1,825	736	2,561

(*Karl Helfferich, "Money," Volume I, P. 206.*)

Russia is the only country in Europe in which gold is mined on a considerable scale. Silver is not mined in

Europe. The major portion of the enormous amount of the precious metals in Europe on December 31, 1913, had been imported from countries outside Europe.

The imports of the precious metals into Great Britain, France, Germany, Holland, Switzerland and the other countries of Europe, in which neither gold nor silver is mined, had, however, been insufficient to liquidate the excess of exports over imports in the foreign trade of those countries, and in 1914 the rest of the world owed them over £11,000 millions for goods and services received.

The value of the goods and services that had been exported on credit from each of the chief trading countries of Europe up to December 31, 1913, was, approximately, as follows:

	Millions
Great Britain	£6,000
France	2,000
Germany	2,000
Holland, Switzerland and other countries .	1,000
	11,000

Loans had been given by Great Britain, France, Germany, Holland and Switzerland to countries in every continent, including Europe. For example, France and Great Britain had given very large amounts of goods and services on credit to Russia.

Most of the gold in Europe before 1914 and most of the gold that has been produced since 1914 are now in the United States of America. During the World War of 1914–18 Great Britain and its allies imported goods from the United States of America in excess of their own exports of goods and services. The difference had, therefore, to be settled partly by the export of gold from Great Britain and its allies to the United States of America and partly by the arrangement of loans to Great Britain and its allies from the United States of America. It is those loans that constitute the war debts of Great Britain and its allies in the World War to the United States of America.

Since 1924 the foreign trade of the United States of America has registered a vast excess of exports of goods and services, and that excess has been paid for partly by exports of gold from Europe and partly by means of loans raised by Europe in the United States of America. At the end of 1927 the amount of gold in the United States of America was half the world's total stock of gold available for currency purposes, and the loans given by the United States of America to countries in Europe, exclusive of the debts incurred during the World War of 1914–18, amounted to £3,000 millions.

The lending of goods and services by one country to another is indirect, that is to say, the manufacturers who export the goods do not themselves give the loans. If, for example, a self-governing dominion of the British Empire invited a manufacturer in Great Britain to construct a hundred miles of railway and wait for payment for thirty years, the manufacturer in Great Britain would certainly refuse to accept the invitation even if he were assured of interest on the amount in the interval. He would explain that he "had not the money" to construct the railway and wait for repayment for several years. He would express willingness to undertake the construction of the railway only if he were assured of full payment on completion. He would probably stipulate for a large sum in advance and for other payments at various stages of the work. Consequently, the direct lending of goods by manufacturers never takes place.

Since what a manufacturer requires is payment in the money or currency of his own country, if a foreign country is able to raise a loan of money in the country of the manufacturer, the foreign country will at once have the means of making payments to the manufacturer and thereby bringing about the construction of the railway or whatever enterprise the foreign country proposes to carry out. The manufacturer has no interest in knowing how the money is obtained. To loans that a foreign country may raise in, say, Great Britain, subscriptions are made by people in Great Britain who have spare money that they desire to lend on interest to governments, municipalities and other public bodies in foreign countries.

The lending of goods by one country to another is thus associated with the borrowing of money in the country which lends the goods. For example, in Great Britain, which has lent goods to foreign countries on a vast scale, foreign countries are always raising loans of money. Hardly a week passes without an announcement being published in the Press that some self-governing British dominion, colony or protectorate or some foreign country is floating a loan for a certain number of pounds sterling at five, six or seven per cent. interest per annum. The return of the principal is promised after a certain number of years. The period might be over thirty years.

Manufacturers in Great Britain have been accustomed to obtain orders for large public works from governments, municipalities and other public bodies in oversea countries, as a result of oversea countries borrowing money in Great Britain. The controllers of the big industries—like the steel industry, for example—in Great Britain are, therefore, very interested in helping people in oversea countries to obtain loans in Great Britain. The controllers of the big industries in Great Britain, therefore, maintain close relations with bankers and what are known as issuing houses. The bankers and the issuing houses are naturally also interested in floating loans to be given to oversea countries, because they obtain handsome commissions on such transactions.

Precisely how loans are given by the great industrial countries of Europe to the non-industrial countries has been described in incisive and even caustic terms by Mr. A. Emil Davies, who writes with expert knowledge on the subject of international borrowing.

It was not necessarily the contractor who quoted the lowest price, who got the job. More frequently it was he who offered the easiest terms of payment. For instance, a man went to a

> South American government or city council and said: "You want a gas-works (or tramway system) here. I will put it up for you, and you need not pay me a single dollar. Just print so many bits of paper called bonds, undertaking to pay 6 per cent. interest on them, and that will satisfy me."
>
> That man would get the contract in preference to his competitor who quoted a much lower price, but required all, or part of it, in cash. Now, the contractor obviously had to pay for his materials and labour in cash, not in bonds, and his ability to secure big works of this description depended upon his ability to turn those bonds into cash.—"*Investments Abroad*," *P. 11.*

If, for example, a railway was desirable between, say, two towns in some little-known state, but the government of the state was unable "to find the money," a British manufacturer of railway material would obtain the tender for the construction of the railway if a loan to cover the whole cost of the undertaking could be raised in London. The British manufacturer would, therefore, arrange with a banking or issuing house in London to float the loan for the state on the condition that the tender was given to him——on his own terms.

It would soon be announced that the state of Progressomania would be issuing a loan in London for the purpose of constructing a railway from Petertown to Paulville. It would be explained that the line would run through territory that was believed to contain valuable minerals and that the soil would probably be found suitable for the cultivation of grape fruit, the demand for which was threatening to outrun the present supply from Florida.

The newspapers in Great Britain, faithful to the economic doctrines of the day, would warmly commend the issue to the public. Grape fruit, it would be observed, promised to vie in economic importance with tea in the nineteenth century and rubber in the present century. It was only to be expected that a government as far-seeing as that of Progressomania should desire to anticipate such a development. The contract had been given to a British firm. That was fresh evidence, if were needed, of the high reputation that the manufacturers of railway material in Great Britain had established in foreign countries. There could be no doubt that foreign countries would increasingly appreciate the advantage of buying British railway material, even if the price were higher than that charged by manufacturers on the continent of Europe or in the United States of America.

The high standing of the bank or of the issuing house would put the final seal of approval upon the issue from the investor's point of view, and the loan would, in all probability, be over-subscribed, that is to say, the state of Progressomania that was but little known a few weeks before would find that it had been offered on loan in the great London money market perhaps twice as much money as it had in its modesty demanded. Needless to say, the government of the state would be highly gratified at the result.

Thus, the state of Progressomania would get a railway about which no one in the state had ever been particularly enthusiastic, the manufacturer an order on the execution of which he would make a handsome profit and the investors seven per cent. on money that had previously been earning, perhaps, two and a half or three per cent. in banks. All the numerous parties to the transaction would, accordingly, feel that business was good and that Great Britain was prosperous.

The remarkable success of the loan of Progressomania would, of course, be the subject of comment in the "Money articles" in the daily and weekly Press, and an "expert" might write of the loan as Mr. Hartley Withers wrote under the suggestive title, "Shall Man "Live by Interest Alone?" in *The Referee* on June 26, 1927. Discussing the success of the Estonian seven per cent. loan for £1,500,000 and other foreign loans floated in London, he declared:

> This popularity of investments which are stamped by their prices and terms as not yet having won their way to first-class rank is an excellent thing as long as they are taken by the right people, that is, by those who can afford to take a risk.

To such folk, investments with a dash of speculation seem to me to be not only quite legitimate, but a duty; because if nobody ever took a risk, there would be no development and no progress, *and active lending abroad is the best stimulus that can be given to our languishing export trades*, for whenever we lend abroad we supply the foreign borrower with money which finally has to be spent in England.

The loans of money given by one country to another merely give the borrowing country the power to make payments in the money of the lending country in the lending country, and those payments may include payments for goods to manufacturers in the lending country. It is only if the lending country can afford to give a certain quantity of goods and services in exchange for the money that the loan can leave the lending country. No money (whether it be in the form of Bank of England notes or of American dollar bills) leaves the lending country. The paper money of one country might be sent to another, but it would have no value in the latter country unless goods had been sent to be exchanged for the paper money, which would, in that case, return to the country of its origin. If the movement of the paper money were not attended by the movement of an equivalent amount of goods, the paper money would lose its value—in other words, it would rapidly depreciate.

The export of capital, as the export of goods and services on credit from one country to another is called, involves two parallel operations. There is, in the first place, the production of more goods than are consumed or are exchanged for the goods of other countries, and, in the second place, the arrangement of a loan of money.

It is, of course, practicable to transfer the amount of a loan from one country to another in gold. Several loans given by the United States of America in 1927 and 1928 to countries in Europe and South America have consisted of quantities of gold. That is because the borrower required the metal for certain specific purposes, and the amount of gold so loaned has always been very small.

If, whenever we made a loan, we had to send the money to the borrower in the form of gold, our gold store would soon be used up, and we should have to leave off lending. In other words, our financiers would have to retire from business very quickly if it were not that our manufacturers and shipowners and all the rest of our industrial army produced the goods and services to meet the claims on our industry given, or rather lent, to other countries by the machinery of finance.

This obvious truism is often forgotten by those who look on finance as an independent influence that can make money power out of nothing; and those who forget it are very likely to find themselves entangled in a maze of error.—*Hartley Withers*, "*International Finance*," *Pp.* 76–7.

It is, thus, upon the capacity to produce goods and services for export without taking other goods or services in return that the power of a country to give loans to other countries depends. A country that has given loans to other countries is described as a creditor country. A country that has received loans from other countries is described as a debtor country.

Now, since it is only in goods and services that one country can make a payment to another country, when a debtor country fulfils its obligation of paying interest to a creditor country, the foreign trade of the debtor country shows an excess of exports or a favourable balance. Thus, an excess of exports or a favourable balance of trade is a feature of the foreign trade of a country that gives loans to other countries and also of the foreign trade of a country that makes payments of interest to other countries. When a creditor country receives payments of interest on the loans it has given other countries, the foreign trade of the creditor country would show an excess of imports of goods and services, provided the creditor country has ceased giving loans to other countries.

The most interesting example of a country that maintains a favourable balance of trade in order to pay interest on previous borrowings of capital is India. India has annually to make very large payments of interest on borrowings of British capital and has also annually to send goods to Great Britain in payment of the salaries of British officials and officers in her service who may be on leave and of pensions of British officials, officers and soldiers who have retired from the service of India. Consequently, a favourable balance of trade is indispensable to India.

The foreign trade position of India has been very clearly described in the memorandum that was submitted by the Indian delegation to the World Economic Conference held under the auspices of the League of Nations at Geneva in May, 1927. It was stated:

> The economic condition of India and her relations with the outside world may be very briefly stated. She is a debtor country in the sense that British and other foreign capital is invested in her railways and irrigation works and in some of her industries in excess of her own investments abroad. On this capital large sums have to be remitted annually by way of interest, the official remittances, which are known as the "Home Charges" and which include pension and other sterling disbursements, amounting to between £30 and £35 millions annually.
>
> In order to find the credits necessary for the liquidation of these claims, both official and non-official, it is necessary for India to export every year goods to a higher value than the value of her imports; in other words, to maintain a favourable balance of her visible trade.

Now, if the amount of the excess of exports in the foreign trade of India is larger than the amount of its total obligations in interest and "Home Charges," India would be compelled to receive the balance in the precious metals or turn lender itself. The excess is, as a matter of fact, far larger than is necessary to meet the interest charges and the "Home Charges," and, as a result, India has not only imported the precious metals on an enormous scale but has also accumulated enormous balances in London.

The people of India are not accustomed to subscribe to foreign loans, and the proceeds of the excess of India's exports are lent on behalf of India by the Secretary of State for India to reliable firms in London or are invested by him in British Consols. Those transactions have been severely criticized by Indian and English writers.

For example, Sir Montagu Webb has in *Advance India* denounced the policy under which "such colossal sums "of the Indian taxpayers' money" are "lying uselessly in "London and only earning comparatively trifling rates of "interest," instead of "being applied to the construction "of reproductive capital works in India," or, as one might also suggest, the better feeding, clothing and housing of the poverty-stricken hundreds of millions of the population of India. So long, however, as India continues to export in excess of what is needed to pay for all its imports, all its obligations in interest on borrowed capital and all the "Home Charges," the lending of the excess in London is inevitable. It is forced upon the Secretary of State by the balance of trade.

The loans given by the Secretary of State on behalf of India to merchants in London, it will be seen, are thus a sequel to, and not a corollary of, the balance of trade. They present a striking contrast to the loans given by Great Britain to other countries. Whereas the export of capital from Great Britain is, apparently, dependent upon previous arrangements for credit or monetary loans, the export of capital from India is, quite clearly, independent of previous arrangements for loans from India to other countries.

CHAPTER III

THE EXPORT OF GOODS ON CREDIT

The Main Objective of the Foreign Trade Policy of A Modern State

THE export of goods and services in excess of the imports of goods and services is the main objective of the foreign trade policy of a state under the capitalist system. The Socialist or Labour Party in Great Britain also has adopted an excess of exports of goods and services as the objective of the foreign trade policy of a state.

The phenomenon of an excess of exports over imports in the foreign trade of the chief trading countries of Europe can be traced back to the eighteenth and even to the seventeenth century. In the eighteenth century it was a marked feature of the foreign trade of Great Britain and of Holland.

The foreign trade of Great Britain during the hundred years before the World War of 1914–18 and the foreign trade of France, Germany, Holland, Belgium and Switzerland between 1870 and 1914 showed an excess of the total exports over the total imports. Since 1920 the foreign trade of Great Britain has registered an excess of exports. Since 1914 the total exports of the United States of America have in each year exceeded the total imports by an enormous amount.

The sole purpose of the World Economic Conference held at Geneva in May, 1927, was to open fresh opportunities to Great Britain and other countries further to increase the present excess of exports in their foreign trade. Sir Max Muspratt, one of the members of the British delegation to the World Economic Conference, said at the first plenary session:

For over one hundred years we have been exporting manufactures, receiving in return food and raw materials. . . .
During this long period our exports and our services (shipping, insurances, etc. . . .) have been so great that *we could not receive at home the payments for those services and for our exports*, and, consequently, a balance to our trade was accumulating in almost every part of the world.—"*Report and Proceedings of the World Economic Conference*," *Volume I, P. 83.*

In the memorandum submitted to the conference by the British delegation it is stated:

The deficiency in savings has chiefly affected our export of capital, which has been greatly reduced.—*Paragraph 16.*

Mr. A. Emil Davies writes:

It may or may not be true that "trade follows the flag," but it certainly is a fact that trade follows the bond. And the nation which could best back up its great contractors in this manner secured the greatest number of contracts, giving employment to thousands of its workers at home. Thus, England got the start and for a long time maintained it.—"*Investments Abroad*," *Pp. 11–12.*

In *The Road to Prosperity* Sir George Paish pleads for opportunities for Great Britain to renew "her capacity to "supply the world with as much capital as formerly." (P. 32.)

On July 26, 1927, *The Times*, in commenting on a debate on the trade situation in the House of Commons on the previous day, wrote:

Unless there were a margin available for investment abroad it would be useless, for foreign nations to turn to this country for loans which, generally speaking, are taken in the form of goods, and the effect on British export trade would be disastrous. Sir Philip Cunliffe-Lister was therefore fully justified in insisting that *the country must reduce its imports and increase its exports.*

During the World War of 1914–18 the neutral states of Europe granted large credits to the belligerents, and Professor Gustav Cassel thus explains why that was done:

The fact that the credits they granted to the belligerents far exceeded the amounts their available funds should have allowed, was mainly due to the interest neutral states had in keeping up their exports.—"*Money and Foreign Exchange After 1914*," *P. 12.*

Exporting industries have been given a high protective tariff in many countries, in order that manufacturers might charge a high price at home and reap such a handsome profit on sales at home as to allow of the export of the same article to foreign countries at considerably lower prices.

Continental manufacturers frequently sell for export at prices substantially less than are demanded from home consumers. For instance, the prices for Belgian No. 3 foundry iron was recently fixed at 610 f. (say, 70*s.*) per ton for home and 65*s.* f.o.b. Antwerp, with further concessions for larger orders.—"*The Economist*," *September 3, 1927.*

The following is from a message from a Sydney (Australia) correspondent:

The Germans have cut prices to an extraordinary extent in order to reach the ready-spending public. Australian manufacturers complain that the Germans send children's cotton socks at 6¼*d.* a dozen, and that they are paralysing local factories by selling metal kitchenware and other manufactures at prices much below the Australian cost of production.

Your Correspondent purchased a bedside clock of German make for 9*s.* this week, similar to one bought in London last September costing 23*s.*—"*The Times Trade and Engineering Supplement*," *May 19, 1927.*

British exporters act exactly like manufacturers on the continent of Europe. In Great Britain manufacturers of machinery and other goods not sold in large quantities, who feel that they have a strong position in the home market and that they could easily stave off foreign competition, maintain a higher level of prices in the home market than in India, the dominions, the colonies or foreign countries.

The Times Trade and Engineering Supplement of April 23, 1927, contained an article in which the writer pointed out that the chief recommendation of a trade association was that it enabled manufacturers to maintain a high price level in the home market and a low price level in foreign countries. He wrote:

In most trades it is obviously impossible to attempt to maintain a fixed level of prices for export transactions, for the reason that in the case of foreign markets an exporting manufacturer loses what small advantage he possesses in his home territory through proximity of works to buyer, implying earlier deliveries as well as convenience in the case of repairs, and he becomes merely one of a much greater number of manufacturers of all nationalities marketing goods produced under entirely different conditions of cost and bound by no rules as to prices or conditions of trading.

This position is recognized by most successful exporting firms, *whose export prices are usually very much lower than the level maintained in the home market.*

The sugar industry of Australia presents the most scandalous example of the exploitation of the home consumer in the interests of the export trade.

An embargo was also placed on the importation of sugar, except with the consent of the Minister of Customs, and by a recent agreement this embargo has been extended.

The production of sugar during the last few years has been in excess of the requirements of Australia and there has been need for finding export markets. Consequently, and owing to the high cost of production of sugar in Australia, it has been necessary to enforce the embargo, and also to fix prices of sugar to meet the difference between world market prices and a profitable return to the local industry.

The price payable for raw sugar needed for home consumption in 1925 was fixed at £27 per ton less £1 per ton to defray administrative and general expenses of the Sugar Board and to provide special concessions to certain industrial consumers of sugar.

For that portion reserved for export the price was fixed at £9 10*s.* per ton, subject to realization adjustments.

Final calculations by the Sugar Board showed that 56 per cent. of the total production in 1925–26 was consumed in Australia, while the net value per ton of exported sugar was £11 5*s.* 9*d.*, making the average price for the whole crop £19 10*s.* 7*d.* per ton.—"*Report to June, 1927, of H.M. Trade Commissioner in the Commonwealth of Australia,*" *Pp. 40–41.*

The price at which a commodity is manufactured in a country is governed by a variety of factors. When, therefore, an industry sells its production at a certain price at home and at a lower price abroad, it either takes a loss, just meets the cost of production or makes only a small profit on its exports. If there is a loss on the exports, the home consumer is forced to make good that loss to the producer and, furthermore, provide him with a profit upon the whole turnover. Consequently, the larger the exports, the greater the loss to the consumer at home. That is exactly the dilemma in which the sugar industry has placed Australia.

Captain Anthony Eden, M.P., writes:

> Production has so much increased that there is a substantial surplus for export after the needs of the home market have been supplied, and the loss sustained in 1924 on sugar exported was so much as £9 10*s.* per ton. How to counteract so great a discrepancy in price is the problem that the sugar industry in Australia has to solve if it is to expand as it can and should.—"*Places in the Sun,*" *Pp.* 56–57.

The exploitation of the home consumer for the benefit of the buyer in a foreign country is the principal purpose of cartels or combinations. The formation of such combines is described as the " rationalization " of an industry. The following is a reference to the British coal industry:

> No doubt it is true that rationalisation, as it has been hitherto worked, has meant *selling fuel dear at home and cheap abroad.* In a crisis such as the present one this may be advisable and inevitable. As a permanent policy it seems full of menace to all the coal-using industries of Great Britain.—*Leading article in "The Daily Mail," November 22, 1928.*

It being an axiom that the expansion of the export trade is the proper objective of the economic policy of a country, whether it be Free Trade or Protectionist, the manufacturers in every country are able to force the Government to advance their interests by various means—whether they be at the expense of the rest of the community or not. For example, in 1928 and 1929 the Parliament of Great Britain, in order to stimulate the export of goods on credit, passed legislation to relieve the productive industries of three-fourths of the rates they pay to local bodies. The farmers are relieved of the whole of the local rates.

The scheme for the reorganization of local rates in Great Britain was first announced by the Rt. Hon. Winston Churchill, Chancellor of the Exchequer, in his Budget speech on April 24, 1928, and an exposition of the economics of the proposals was given in the leading article in *The Times* on the following day. The proposals were described as follows:

> They set out to remove from production a direct burden which has long been pressing heavily on our exporting industries. . . .
> His [Mr. Churchill's] object is simple and straightforward —namely, to shift part of the burden of local taxation from the producer to shoulders better able to bear it.

Under the de-rating scheme, while the inhabitants of a local area and the retail traders who supply the inhabitants of a local area with home-made or imported goods, including the necessaries of life, will continue to pay the full rates, the owners of the mines, mills and factories that produce goods for consumption in the country or for export to foreign countries will pay only a fourth of the rates. The whole of the population must, furthermore, bear additional taxation, out of the proceeds of which the local authorities would be compensated for the revenue they have lost.

The rating reform proposals of all the political parties are based upon the hypothesis that the rates are weighing heavily upon the industries that export goods to other countries. There is no difference of opinion upon the principle that the exporting industries should be given a certain measure of relief from taxation, and it must be pointed out that the Government's scheme relieves all the industries, whether they are prosperous or not, of three-fourths of the local rates, and thus establishes the principle that the productive and exporting industries have a claim to special consideration at the hands of the state.

The preference for the expansion of exports rather than the expansion of imports is revealed in the laws of every country—whether it be avowedly Free Trade or avowedly Protectionist. In Great Britain, a Free Trade country, a low scale of duties is levied upon imported goods. The reason given is that customs duties are a necessary source of revenue to the state. Exported goods are not called upon to make a similar contribution to the public exchequer. In the United States of America, an avowedly Protectionist country, extremely heavy duties are levied upon imports of very large classes of goods. The levy of duties upon exports of goods is prohibited, not by a law of the legislature, but by an article of the constitution—like the production, importation or sale of alcoholic liquor!

It might be contended that the object of the expansion of exports from a Free Trade country is the expansion of imports. Such a claim would not stand examination. In the first place, an excess of exports over imports has been the chief feature of the foreign trade of Great Britain and of Holland, the two most prominent Free Trade countries, even after they had adopted a policy of Free Trade. In fact, the exports of capital from Great Britain were never larger than after the establishment of complete Free Trade. In the second place, Free Traders, although they hold that imports should be subject only to a low scale of duties, imposed for strictly revenue purposes, do not concede that imports should be equivalent to exports. On the contrary, an excess of exports is, according to every principle of Free Trade doctrine, the proper objective of the foreign trade of a Free Trade country.

One of the principal exponents of Free Trade doctrine in Great Britain is *The Nation and Athenæum*. In a leading article on October 1, 1927, that journal went so far as to discount an increase in production that had taken place, because it had been in response to a demand from the home market and, therefore, could " not help the " balance of trade." *The Nation and Athenæum* wrote:

> *Industries that work for the home market are continuing to expand;* there is some reason to hope that they may even make a fresh spurt during the next few weeks.
>
> It is possible, therefore, to entertain a none too confident hope

that the aggregate unemployment figures may fall rather than rise over the remainder of the year. *But this will not help the balance of trade. If we survey the condition of the leading exporting industries, the picture is almost uniformly depressing*; and we can see no justification whatever for taking for granted a material recovery in the volume of our exports.

Mr. Hartley Withers, an uncompromising champion of Free Trade, wrote as follows in one of his regular weekly articles in *The Referee* in 1927:

> The first need, in order to improve the condition of the working classes, is to reduce unemployment, and one of the most obvious ways of doing so is to provide a stream of cheap and plentiful capital.

Mr. Withers' argument is that the "stream of cheap "and plentiful capital" would be lent to foreign countries and thus expand exports on credit.

It was only during the World War of 1914–18 that the foreign trade of Great Britain showed an excess of imports of goods and services.

Speaking at Bangor in September, 1927, the Rt. Hon. David Lloyd George, the leader of the Liberal or Free Trade Party, made a statement on the foreign trade position of Great Britain. He said:

> *Our exports have gone down, imports have risen rapidly.* In 1922 the excess of imports over exports was £171,000,000. This deficit was more than covered, however, by our invisible exports, and we were left with a balance in our own favour of £154,000,000.
>
> In 1924 the excess was still higher, but not so high that it could not be still covered by the invisible exports.
>
> Last year our adverse balance of imports over exports had risen to £477,000,000. This year it promises to be no better, and the invisible exports, stretched as they have been by revised estimates, could not cover the colossal gap of 1926, *and we had for the first time in the trading history of this country an adverse balance against us.*[1]—"*The Manchester Guardian,*" *September 22, 1927.*

[1] In an article published in the *Board of Trade Journal* of February 28, 1929, it was explained that more careful calculations of the invisible exports in 1926 had shown that in 1926 there had not been, as originally stated, an adverse balance.

No one who reads that statement can have the least doubt in his mind that the export of goods on credit is the economic objective that Mr. Lloyd George sets the British people. In a debate in the House of Commons on July 25, 1927, on the trade situation, Mr. Lloyd George made a clear avowal of that economic objective. He said:

> They [the United States of America] have a huge balance and are in a position to advance huge sums of money to the world, and they are doing it on condition that the money shall be spent there; because, as everybody knows, when you advance, say £20,000,000, you do not send the money in cash but deliver it in the form of goods. That is really why the United States of America are in a better position. . . . They have got money to advance to the world, and their custom is attributable entirely—entirely, mind you—to that. They could not compete with us otherwise.—"*Parliamentary Debates, House of Commons,*" *Volume 209, Columns, 924–25.*

That a favourable balance of trade should be the main objective of the economic policy of a country is definitely and explicitly stated in *Britain's Industrial Future*, the report of the Executive Committee of the Liberal Party, which investigated the decline in the export trade from the Free Trade point of view. The committee included Mr. W. T. Layton, editor of *The Economist* (chairman), Professor Maynard Keynes, Mr. Philip Kerr, Mr. Lloyd George and Sir Herbert Samuel.

Envisaging the possibility of the proposals for the expansion of exports failing to give the desired results, the committee makes the suggestion that the agricultural production of the country be increased *in order to reduce imports of foodstuffs and raw materials*, and thereby increase the excess of the total exports over the total imports. " The home production of a greater proportion " of food and raw material supplies " is advocated, not, as one might be led to suppose, in order to increase the supplies available in the country and thus ameliorate the condition of the masses of the people, but in order " *to* " *bring a sorely needed contribution to our balance of trade* "

(P. 320). The balance of trade of Great Britain already consists, as shown above, of a handsome excess of exports over imports. In 1928 the favourable balance was no less than £149 millions.

In the debate in the House of Commons on July 25, 1927, Mr. Sidney Webb, one of the ablest and most distinguished economists in the Labour or Socialist Party and a determined Free Trader, who was President of the Board of Trade in the first Labour Ministry of 1924, went further than any other speaker in the debate in stressing the vital necessity of giving goods on credit to other countries. He said:

> I want to suggest that the falling away of our trade balance is largely due to the cessation for a long time of loans to our overseas Dominions. Whenever we make a loan to an overseas dominion or to another Government, the proceeds of that loan go away from this country in the shape of goods, and consequently the exports for that particular year are swollen to the amount of the loan. The result is that the trade balance of that year is immensely more favourable than if there had not been such loans.
>
> It is a fact that, if you do not make these loans, our trade balance is not so favourable. Of course, it follows from this argument that, if you want to turn your balance of trade in a favourable direction, you can do it by making foreign loans. Those loans will increase our exports and alter the figures of the trade balance, *making it more favourable.*—"*Parliamentary Debates, House of Commons,*" *Volume 209, Columns, 971–72.*

Thus, whatever Cobden, Bright and their immediate successors might have considered was the purpose of foreign trade, to the Free Traders of the present day, be they Liberals or Socialists, as much as to the Protectionists, the great object of foreign trade is an excess of exports or a favourable balance of trade.

CHAPTER IV

EUROPE'S LOST TRADE

A Decline of the Lending, Not of the Selling, of Goods

The decline in the exports of the industrial countries of Europe since the World War of 1914–18 has not been, by any means, a sequel to a decline in imports, because the imports of the industrial countries of Europe continue to be maintained at the level at which they stood before the World War.

According to the documentation of the World Economic Conference of May, 1927, the imports into Europe (excluding Central and Eastern Europe) in 1925 were, as compared with the record year 1913, as 100·8 is to 100. Those calculations do not apply to Germany and other countries that have borrowed from the United States of America.[1]

The imports of Western and Maritime Europe in 1925 were almost entirely paid for by exports. Whatever was borrowed was too insignificant to deserve any attention at all. It is pointed out in the *Memorandum on Production and Trade* that was prepared for the World Economic Conference of May, 1927, that

> The total trade of Western and Maritime Europe in 1925 was very nearly up to the pre-war standard.—*P. 37.*

The net imports of goods into Great Britain——that is, goods that go into consumption or into the production

[1] The group of Central and Eastern European countries here and elsewhere in this Memorandum consists of Austria, Bulgaria, Czechoslovakia, Esthonia, Germany, Hungary, Lativa, Lithuania, Poland, Roumania, Russia and the Kingdom of the Serbs, Croats and Slovenes.—"*Memorandum on Production and Trade of the World,*" *P. 9, of the World Economic Conference of May, 1927.*

of other goods in the country (as distinguished from imports that are re-exported to other countries)——increased from £659,168,000 in 1913 to £1,166,678,000 in 1925. Despite the great rise in prices in the intervening period, the figures imply a considerable increase in the quantities of the goods imported.

Speaking in the House of Commons on July 25, 1927, the President of the Board of Trade, Sir Philip Cunliffe-Lister, stated that, taking 1913 as the basic year and reducing the figures to a common standard of value—to offset the rise in prices—the imports of goods, that is, foodstuffs, raw materials and other commodities that are essential to the comfort of the people, were as follows:

Year	Imports
1913	100·0
1924	106·6
1925	111·8
1926	117·4

The expansion of the imports of goods has been accompanied by a contraction of the exports of goods. On the basis of calculations identical with the calculations of the imports, the decline in the exports of goods has been as follows:

Year	Exports
1913	100·0
1924	76·1
1925	76·0
1926	67·9

The exports of services between 1924 and 1926 also showed a decrease in comparison with the exports of services in 1913.

Since 1922 Great Britain has not borrowed in other countries, and all her imports of goods since that date have, therefore, been fully paid for. The apparent paradox of an increase in the imports of Great Britain since the World War of 1914–18, attended by a decline in the exports, is explained by the fact that the total exports of Great Britain have always exceeded the total imports of Great Britain, except during the World War. Thus, there has always been a margin that admitted of a contraction either by a decline in exports or by an increase in imports or by both.

That fact was stated with very great clearness by Professor Maynard Keynes in a tract in which he attacked the restoration of the gold standard in Great Britain in April 1925.

> We start with a wide margin of strength. Before the war our capacity to lend abroad was, according to the Board of Trade, about £180,000,000, equivalent to £280,000,000 at the present price level; and even in 1923 the Board of Trade estimated our net surplus at £102,000,000. *Since new foreign investments bring in no immediate return,* it follows that we can reduce our exports by £100,000,000 a year without any risk of insolvency, provided we reduce our foreign investments by the same amount.—"*The Economic Consequences of Mr. Churchill,*" *P. 15.*

Thus, there can be no question of the ability of Great Britain to pay for imports. Her trade, so far as that is understood to mean the exchange of goods and services, (as proved by the increase in imports) is greater than it was before the World War of 1914–18, after allowing for the difference in prices.

So long as there is an excess of exports over imports, and so long as the imports continue to be on the same level as before the World War of 1914–18, leave alone the rise to a higher level, there can be no excuse for the suggestion that there has been a decline in exports that pay for imports. If there has been a contraction in the total amount of the exports, that contraction has taken place in the exports that were given on credit.

During the past seven years Mr. Hartley Withers has, with steady persistence, pointed out that an expansion of the exports of goods from Great Britain is dependent upon her ability to give goods on credit to other countries. The following is an extract from one of his articles in the Press during 1927:

> There is good reason for the belief that one of the causes of the slow recovery of our trade is the fact that owing to high taxation we are not saving as fast as we used to, *and so have less to lend abroad, which means that our export trade is hampered.*—"*The Referee.*"

When Mr. Hartley Withers refers to "the slow "recovery of our trade," he refers to the slow recovery of the export of goods on credit, which was carried to such enormous lengths by the industrial countries of Europe before the World War of 1914–18.

The Times, in commenting on the trade returns in a leading article on April 30, 1927, stated quite clearly that what the desired trade revival was expected to bring Great Britain was an increase in exports of goods on credit —not the means of payment for imports. *The Times* wrote:

> That the urgent need of the country at present is an increase in its overseas trade is shown by the monthly trade returns *and the dearth of money available for investment abroad.*

The fact that Great Britain no longer gives other countries goods on credit on the scale Great Britain used to before 1914 is admitted by Sir George Paish to be "the main cause of the depression in trade."

> If it be borne in mind that in pre-war days Great Britain was supplying outside countries with £200 millions of new capital and new credit per annum for the expansion of their productive power, and that for the last two years she has supplied on balance none at all, the main cause of the depression in trade will be apparent.
>
> The supply of this capital gave foreign and colonial nations the capacity to buy great quantities of British goods, and caused British industry to be active and progressive.—"*The Road to Prosperity,*" *P. 31–32 (Published 1927).*

The small state of Luxemburg has a very highly developed metal industry, which is capable of annually producing 2,600,000 tons of pig iron and 2,300,000 tons of steel. Naturally, it has to enter into competition with the iron and steel industries of countries like Great Britain and Germany, and the conditions under which that competition is carried on is revealed in the memorandum that M. Emil Mayrisch submitted on behalf of the state of Luxemburg to the World Economic Conference of May, 1927. He wrote:

> Great difficulty is being experienced in meeting this competition, because the Luxemburg industry cannot apply to the Government for any assistance in the shape of credit, as is the case in neighbouring countries; nor is it supported by large banks which, in other countries, make the granting of loans dependent upon orders for the national industry.

The facts were also set forth very clearly in a memorandum submitted to the World Economic Conference of May, 1927, by Professor Gustav Cassel. In *Recent Monopolistic Tendencies in Industry and Trade—Being an Analysis of the Nature and Causes of the Poverty of Nations*, Professor Cassel, after distinguishing the countries that supply Europe with foodstuffs and raw materials as the colonial world, because the products they export are generally known as colonial products in the markets of Europe, says:

> The problem of the economic restoration of the world is to a large extent a problem of settling the relations between Europe and the colonial world. . . .
>
> The European producer naturally looks upon the colonial world as a market where he must try to find *a sale for his surplus produce*, and he is constantly asking himself the question whether the colonial world will really be found to possess sufficient purchasing power for absorbing all that Europe can offer it.
>
> One would perhaps be inclined to answer the question by saying that it is here only an exchange of goods, and that the colonial world will always be able to produce such articles as Europe requires, and will thus always be capable of paying for the industrial products of Europe, assuming these to be suitably adjusted to the demands of the colonial world.
>
> *The matter, however, is not quite so simple. Looking back on pre-war times, we find that even then European exports were possible only by means of extensive and continued granting of loans to the colonial world.—Pp. 35–36.*

To quote further from his memorandum:

An indispensable condition for this export industry, however, was that Europe advanced the necessary funds to the colonial world. This was, in fact, done to a large extent, principally with the aid of England, France and Germany. A steady flow of European savings was directed, in the form of loans, to the colonial world, supplying it with the means for its development and constituting at the same time a source of continued demand for European industrial products.—*P. 36.*

It is by no means mere chance that the depression in Europe has made itself most strongly felt in the capital-producing industries, especially the iron and steel and the engineering industries, or that those countries which used to stand in the first rank as exporters of real capital to the colonial world, viz., England and Germany, are now those to suffer most seriously from unemployment.—*P. 37.*

As Professor Cassel has pointed out, it is in those industries that produce the kinds of goods that were generally given on credit, such as the iron and steel industry and coal-mining (which is largely dependent upon the iron and steel industry), that the heaviest unemployment exists. For example, in the memorandum of the British delegation to the World Economic Conference of May, 1927, it was stated of the depression in trade:

Its effects are very clearly seen in the figures of unemployment for five large industrial groups, viz. coal, iron and steel, wool and engineering, including shipbuilding. Unemployment in these trades is dominated by the export situation.—*Paragraph 10.*

Sir George Paish writes in *The Road to Prosperity:*

In pre-war days, Great Britain alone supplied some £200 millions of capital per annum to foreign and colonial countries for their development, more than half of the money being devoted to railway construction, while Germany, France and the other lending nations of Europe supplied nearly as much again, all of which increased the world's power to buy European goods.—*P. 131.*

For the greater part of the century prior to the war *railway construction played a prominent part in creating buying power and* *expanding income.* When railway building was in active progress trade was brisk, and when it slackened off trade was depressed.—*P. 129.*

Discussing the possibilities of the future, Sir George Paish says:

On the general ground of creating demand for Europe's manufactures, and thus increasing her income, new railway construction in the agricultural countries should be taken in hand.—"*The Road to Prosperity,*" *P. 128.*

At the World Economic Conference of May, 1927, Mr. J. W. O'Leary, one of the American delegates, who is a past President of the Chamber of Commerce of the United States of America, referring to the economic situation of Europe, said:

The production and consumption of commodities intended for immediate use has in general reached, if not exceeded, pre-war proportions. The same is not true of the production and demand for capital goods.—"*Report and Proceedings of the World Economic Conference,*" *May, 1927, Volume I, P. 162.*

Professor Gustav Cassel in *The Theory of Social Economy*, a work composed before the World War of 1914–18 and published before the present depression had set in, recorded the significant fact that it was precisely in those industries producing goods that used to be exported largely on credit that all previous depressions had taken place. The so-called cycle of trade has been confined to that part of the foreign trade of a country that is sustained by the export of goods on credit.

In *The Theory of Social Economy* Professor Cassel quotes statistics of unemployment between 1872 and 1908. The years selected are those in which unemployment had been either at a minimum or at a maximum, and the industries selected constitute the following groups:

A. Engineering, ship-building and metal industries,
B. Building industry,
C. Wood and furniture industries,
D. Printing and book-binding,
E. Mining, textile, clothing, paper, leather, glass pottery and tobacco industries.

Professor Cassel uses the term, conjuncture-movements, instead of the more prosaic term, trade cycle, and he refers to the groups of industries by the letters, A, B, C, etc. For the convenience of the reader the names of the industries are added in brackets in the following quotations from Professor Cassel's book:

> We see that in the minimum years unemployment is usually very small for all the groups. But in the maximum years *it is quite clear how much more depressions affect the capital-producing industries, A and B* [engineering, ship-building and metal industries and building industry] than the others.
>
> During the heavy depression of 1879, for instance, when unemployment reached 15·3 per cent. in group A [engineering, ship-building and metal industries] and 8·2 in the building trade, it was confined in group E [mining, textile, clothing, paper, leather, glass, pottery, tobacco industries] to 3·3.
>
> It was the same in 1908, when unemployment in groups A and B [engineering, ship-building and metal industries and building industry] was 12·5 and 11·6 per cent. respectively, and only 2·9 in group E [mining, textile, clothing, paper, leather, glass, pottery and tobacco industries].
>
> These figures are obviously a strong confirmation of the results to which our previous studies led us—*that conjuncture-movements are of their very nature fluctuations in the production of fixed capital and have only a secondary influence upon the other branches of production.*
>
> It is part of the nature of these statistics that they bring out this difference of character of the two principal groups of industries only in periods of depression, for during high conjunctures unemployment proper falls practically to zero in all industries, and the statistics *do not show the great rise in the number of employed workers which the capital-producing industries in particular show during high conjunctures.*—"*The Theory of Social Economy,*" *Volume II, P.* 549.

It is the circumstance that a definite part of the production of Great Britain has been given on credit to other countries, year after year, during the past hundred years that explains the fact that Great Britain has experienced "cycles" of trade and that a "depression in trade" seriously disturbs the economy of Great Britain:

> The effect of the shrinkage of world trade following the war has been felt with special acuteness in Great Britain not because

the proportionate reduction of exports has been above the average, but because production for export plays such an exceptionally important part in the national economy.—*Memorandum of the British Delegation to the World Economic Conference of May, 1927, Paragraph 10.*

It is not "production for export," but production for export *on credit*, that plays "such an exceptionally important part in the national economy." The looseness of the phraseology of the memorandum submitted by the British delegation to the World Economic Conference is characteristic of economic literature, especially in the domain of foreign trade.

The industrial countries of Europe have lost their trade with Russia since the establishment in that country of a Union of Socialist Soviet Republics. Much prominence was given to that fact in the summer of 1927. At the meeting of the World Economic Conference of May, 1927, and the Stockholm session of the International Chamber of Commerce, which was held in June, 1927, statistics were quoted to show how the foreign trade of Russia had declined since the Revolution of 1917, and attempts were made to persuade the peoples of the capitalist countries that their misfortunes were, in large part, due to the collapse of "the buying-power" of the masses of the Russian people under Soviet rule.

Russia is an agricultural country, and its exports to other countries before the World War of 1914–18 consisted chiefly of foodstuffs and raw materials. The documentation of the World Economic Conference of May, 1927, has proved that the production of raw materials and foodstuffs in the whole world today, in proportion to the increased population, is far greater than before the World War and that the foodstuffs and raw materials that the industrial countries of Europe used to import from Russia before the World War are now imported from other countries in the same abundance—indeed, in greater abundance—and, as shown also by the documentation of the World Economic Conference, at lower relative prices. Therefore, so far as the supplies of those products that Russia used to export before the World War are concerned, no difference whatever has been made to the industrial countries of Europe by the establishment of Bolshevist rule in Russia.

The countries that now ship to the industrial countries of Europe the products that were supplied by Russia before the World War of 1914–18 have to be paid for those products as much as Russia was paid for before the World War, and being, like Russia, agricultural countries, they take the manufactures of the industrial countries of Europe with equal readiness. Therefore, the manufactures that used to be exported to Russia before the World War now go to countries like Canada, India and the Argentine. Canada has taken Russia's place as an exporter of wheat.

The disappearance of Russia as a trader, that is, a country that paid for its imports of manufactures by exports of agricultural products, has not, therefore, made the slightest difference to the genuine trade of the industrial countries of Europe, except that Canadian wheat is consumed instead of Russian wheat and that exports to Canada and other countries have taken the place of the exports to Russia. It cannot be otherwise.

The real grievance of the industrial countries of Europe against the Bolshevists arises from the fact that the Bolshevists have eliminated Russia from the list of countries that used to import goods on credit from the industrial countries of Europe. By the repudiation of the debts of the Tzarist Government and the seizure of British, French and other foreign capital invested in Russia, the Bolshevists have made it impossible for the capitalist countries to continue annually to present Russia with vast quantities of goods absolutely for nothing except I.O.Us.

On Tzarist Russia, the three principal industrial countries, Great Britain, Germany and France, poured loans with a generosity that is incredible. Great Britain lent Russia (apart from £800 millions for the World War of 1914–18 and £21 millions to municipalities) £924,769,860 for various purposes, including the construction of railways and the establishment of factories, mills and mines (*Investments Abroad*, *P. 23*). The loans given to Russia by France amounted to an even larger sum. They were chiefly for the construction of strategic railways to the German frontier and the equipment of the army and the armament factories. The investments of German capital in Russia were on a smaller scale than the investments of French or British capital, but were, nevertheless, considerable.

That the exports from the industrial countries of Europe to Russia before the World War of 1914–18 consisted largely of goods on credit was brought out in the paper that Sir (then Mr.) George Paish read before the Royal Statistical Society on June 15, 1909. He said:

> It will be noted that our investments in the loans of continental countries are tending to decline. This tendency may be checked if events cause the British market for capital to be again opened freely to Russian borrowings. That country needs to raise capital from year to year for the extension of its railway system.—"*Journal of the Royal Statistical Society*," *Volume LXXII*, *P. 467*.

Some little time after that statement was made the British market for capital was again "opened freely to "Russian borrowings," and, as a result, between 1909 and 1914, although the annual exports of Russia remained almost constant, the annual imports into Russia rose from 900 to very nearly 1,400 million roubles, and it must be remembered that even the original 900 millions of roubles included large imports on credit. (*Russian Currency and Banking*, *1914–24*, *P. 8*.)

The investments of capital of the industrial countries of Europe in other lands consists, as explained, of the accumulation of the difference between the total exports from, and the total imports into, the industrial countries of Europe in each year over a long period of years. At the end of 1913, as shown in the second chapter, £11,000 millions of goods had been given on credit by Great Britain, France, Germany, Holland and Switzerland to other countries.

It is the lending of goods that the industrial countries of Europe desire fully to resume and largely to expand. It is the absence of opportunities of lending that is responsible for what is described as the depression in trade.

That it is to a revival of borrowing that the industrial countries of Europe look for "a revival in trade" is admitted in the Final Report of the World Economic Conference of May, 1927, in which it is stated:

> Demand has, however, been restricted by the fact that lack of capital resulting from diminished savings has prevented economic development on the same scale as before the war. The iron and steel industry, which is largely concerned with providing fixed capital in various forms, is particularly affected by this fact.—*Paragraph 5.*
>
> Another difficulty which has played a great part in recent years has been the shortage of capital. The low level of production that followed the war left in Europe, at all events, no margin for saving.
>
> This situation has gradually changed. The recovery of production in Europe, together with a growing sense of security, has revived the process of saving and stimulated the international movement of capital.—*Paragraph 10.*

There is no more well-established commonplace in the commercial world than that trade is dependent upon credit. Most people believe that the credit referred to is the credit required to move goods from one country to another, because, obviously, an interval must elapse between the payment made to the producer in one country and the payment received from the consumer in another. All such credit is easily and automatically provided. The credit that is such a constant subject of discussion and controversy among bankers, business men and economists is the credit that is needed to give other countries goods on loan for long periods.

That is the kind of credit for the expansion of which the Rt. Hon. Reginald McKenna, Chairman of the Midland Bank, has so often and so vigorously pleaded during the past eight years. He has agitated for the amendment of the currency laws of Great Britain for the purpose of increasing the amount of money. The hypothesis is that if there is more paper money in the country there would be more money available for subscription to foreign loans, and if there were more loans given to foreign countries, there would be more exports.

No distinction has hitherto been drawn between goods exported on credit and goods exported against cash—against imports of goods. That is why the decline in the export of goods on credit is confounded with the export of goods against imports of goods and is described as a depression in trade.

The term, depression in trade, is completely misleading. There is no depression in trade if the term, trade, implies the export of goods and services against the import of goods and services. *Of genuine trade there is much more in the world today than there was before the World War of 1914–18.* That is the most important fact to be found in the documentation of the World Economic Conference of May, 1927. For reasons best known to the members of the World Economic Conference, that fact was entirely ignored in the recommendations made by the conference.

There can be no decline in the selling of the manufactures and services of the industrial countries of Europe to the rest of the world so long as the peoples of the industrial countries of Europe continue themselves to buy the products of the rest of the world on the pre-war scale or on the present much larger scale. In genuine trade, that is, the exchange of goods and services against goods and services, there never can be a "depression."

What has affected the economy of the industrial countries of Europe since the autumn of 1920 is a decline in borrowing. It is a decline in the borrowing of the manufactures of the industrial countries of Europe, and not a decline in the buying of the manufactures of the industrial countries of Europe, that has taken place. The term, decline in buying-power, is even more misleading and more inexcusable than the term, depression in trade.

The decline in the borrowing of the manufactures of the industrial countries of Europe that has taken place during the past eight years is not due to a weakening of the will to borrow in the former borrowers from the industrial countries of Europe, but from *a decline of the power to lend in the industrial countries of Europe.* That is proved beyond all dispute by the fact that the self-governing British dominions and the republics of South America (which borrowed goods on a large scale from the industrial countries of Europe before the World War of 1914–18, but borrow little or nothing now from the industrial countries of Europe) are borrowing goods on a large scale from the United States of America. In the United States of America the production of goods for export on credit is proceeding merrily. What has declined, in fact, is neither buying-power in the colonial world, nor selling-power in the industrial countries of Europe, but lending-power in the industrial countries of Europe.

That is the Mystery of the Trade Depression in the Industrial Countries of Europe, and in the rest of this work that mystery will be completely unravelled. It is a mystery that goes to the foundations of the capitalist system. Unless and until the dependence of a country upon the export of capital for the maintenance of full production and full employment is entirely unravelled and completely understood, there can be no solution whatever of the mighty problems of restricted production and large-scale unemployment.

CHAPTER V

THE IMPORT OF CAPITAL FROM EUROPE BY THE COLONIAL WORLD

Inability of the Industrial Countries of Europe to Absorb Colonial Products the Cause

When the imports of a country exceed its exports, that is to say, when a country imports goods on credit, either the country that imports goods on credit has reached the limit of its exporting capacity or the country in which the loan is raised has reached the limit of its importing capacity.

If the people of Great Britain would import larger quantities of wheat, wool and fruit from Australia than they do now, the additional exports of those products from Australia would enable the people of Australia to pay cash for railway material or motor cars that they now import on credit.

The sale of goods on credit to Australia might as well arise from the inability of Great Britain and other industrial countries to import Australian products (in receipt of payment of exports to Australia) as from the inability of Australia to ship goods to the value of her imports of manufactures from Great Britain and other industrial countries. The mere export of goods from Great Britain to the colonial world does not create conditions in which the colonial world may export to the full value of those goods.

The ability of the industrial countries of Europe to import a special class of goods, namely, foodstuffs and raw materials, produced in the colonial world, is entirely dependent upon the capacity of the masses of the peoples of the industrial countries of Europe to consume that class of goods.

There is nothing further removed from the truth than that Europe is a hungry market for the foodstuffs and raw materials of the colonial world. Hunger and want of every kind unquestionably exist among the masses of the peoples of the industrial countries of Europe, but the industrial countries of Europe during the past half-century—to go no further back—have completely failed to absorb as much of the annual production of the foodstuffs and raw materials of the colonial world as the colonial world has been able either to ship or to produce for shipment to the industrial countries of Europe.

The borrowings of the colonial world have been forced upon the colonial world by the failure of the industrial countries of Europe to import foodstuffs and raw materials to the full extent of the exports of manufactures and other goods to the colonial world. If the industrial countries of Europe would import foodstuffs and raw materials from the colonial world to the full extent of the exports of manufactures from the industrial countries of Europe, the colonial world would not borrow at all from the industrial countries of Europe.

The colonial world is always unable to dispose of as much as it produces for export, and it has, as a result, repeatedly had to face acute crises. Professor Arthur E. Bowley describes the economic crisis that commenced in 1873 as follows:

> *The depression was first felt in countries which produced raw materials;* borrowing their capital from manufacturing States, and finding the process very profitable, so long as capital was easily obtained, *they soon flooded the markets of the old countries with more produce than was required for consumption or manufacture.*
>
> When the supply of capital was checked, *and the demand for raw produce decreased*, it was not possible, for instance (even if there had been an intimate knowledge of the state of English finance in those remote districts), *suddenly to diminish the harvests*, *to decrease the quantity of corn already sown*, *to find new employments*

for the multitude of labourers engaged in agriculture, or pay the interest on, and working expenses of, railways no longer needed.

The exploitation of these countries, Austria, the States, South America and Russia, had been carried too far.

It is in this direction that we must look for the general cause of the depression.—"England's Foreign Trade in the Nineteenth Century," Pp. 82–83.

In the last decade of the nineteenth century, that is, "the eighteen nineties," another economic crisis overtook the world, also as a result of the industrial countries of Europe being unable to absorb the foodstuffs and raw materials that the debtor countries (which then included the United States of America) were able to produce and export. Sir George Paish thus describes the economic crisis of the last decade of the nineteenth century:

The injury to credit resulting from *the over-borrowing of the new countries in the 'eighties* was not fully overcome until the Australian banks were reconstructed, the finances of South American countries readjusted, the United States pledged by their Congress to "sound currency," and the finances of a large part of the railways of America were reorganized. . . .

The effect of this partial breakdown of credit lasted for seven years, from 1890 to 1897, and was felt by every country.

The price of food fell to a level which reduced the farmers of all nations to poverty. Cotton, wool and other raw material became so cheap that those who produced them had scarcely enough to live upon.—"The Road to Prosperity," P. 114.

What Sir George Paish in the above quotation condemned (in 1927) as "the over-borrowing of the new "countries in the 'eighties" was commended by him in the paper on Great Britain's Foreign Investments that he read before the Royal Statistical Society on June 15, 1909. The following was what he said in 1909:

For a period of *enterprise* similar to that through which we are now passing, *we have to go back to the later eighties*, when we were investing vast sums in the Australasian Colonies, in the United States, in Argentina, in India, in Canada and in other lands. . . .

In the seven years from 1884 to 1890 inclusive we placed abroad over £400,000,000 of capital.—"*Journal of the Royal Statistical Society*," *Volume LXXII, P. 474.*

The difficulties that the colonial world experienced in the eighties and the nineties of the nineteenth century in selling foodstuffs and raw materials in the industrial countries of Europe actually coincided, strange to say, with vast exports of goods on credit from Great Britain and the other industrial countries of Europe. That fact has been noticed by Dr. Max Sering, the well-known German agricultural economist.

In these exchange relations there have been two great crises. The first crisis lasted from 1875 to 1900, the second began in 1920 and is by no means over yet.

The first great agricultural crisis I shall pass over with a few words. It was a consequence of the greatest colonization of all times, which after rapidly opening up the western prairies of the United States was continued after the eighties in Canada, the La Plata region [the Argentine and Uruguay], and slowly also in Australia and South and North Africa.

By flooding the markets it caused a heavy fall of grain prices, but—in contrast with the present-day situation—*was accompanied by a brilliant rise in Middle and West European and East American industry.*

In sharp contrast with our own days, industry in these areas was plentifully supplied with raw materials and foodstuffs and found abundant markets in the new countries, which had to be provided with all the resources of modern civilization.—*Speech to the Agricultural Commission of the World Economic Conference of May, 1927.*

A still more remarkable fact is that the period of the heaviest exports of capital from the industrial countries of Europe in the eighties of the nineteenth century not only followed a marked failure of the industrial countries of Europe to absorb the increased agricultural exports of the colonial world, but that that period coincided with artificial attempts to keep colonial products out of Europe. To quote from Dr. Sering's speech again:

The grain-growing countries of the European continent were able to protect themselves against the great wave of overseas competition by customs duties without lowering the standard of living of their industrial population.

The crises of the eighties and the nineties of the nineteenth century would not have arisen if the masses of the people in the industrial countries of Europe were absorbing food, wool and cotton, leather and other colonial products to the full value of the exports of the industrial countries of Europe. Moreover, while the conditions described by Sir George Paish and Dr. Max Sering existed, the masses of the people in the industrial countries of Europe were altogether inadequately supplied with food, cotton and woollen clothing, shoes and other commodities.

That the industrial countries of Europe are not absorbing the exportable surplus of the production of the colonial world is admitted in the Final Report of the World Economic Conference of May, 1927:

> The documentation of the Conference indicates that, if agricultural prices are low and the agricultural community in many countries in a state of depression, it is not because there has been abnormal increase in the production of foodstuffs but because the demand from certain manufacturing countries in Europe is inadequate.—*Paragraph 6.*

The fact that Great Britain and other industrial countries in Europe have in the excess of their exports the means to pay for larger imports of foodstuffs from the countries that export agricultural products was completely overlooked by the World Economic Conference of May, 1927. Instead, the conference repeated the time-worn argument that the consumption of the industrial countries of Europe could expand only when the rest of the world—especially the colonial world—absorbed more of the manufactures of the industrial countries of Europe. The colonial world is, as already shown, absorbing the manufactures of the industrial countries of Europe to the full extent of the purchasing power of the colonial world, that is, the exports of goods from the colonial world to the industrial countries of Europe, and is, in addition, absorbing a large quantity of the manufactures of the industrial countries of Europe on credit.

In the face of those facts, it is as disingenuous as it is ridiculous for the industrial countries of Europe to indict the colonial world on a charge of not importing enough from the industrial countries of Europe. That charge, as it has been authoritatively stated, is found, on an analysis of the facts, to be that the colonial world does not continue to borrow from Europe on the scale on which it used to do before the World War of 1914–18.

It has not been alleged—it certainly cannot be proved—that the colonial world is not importing goods to the full extent of its means, that is, its own exports. No one has accused the colonial world of making investments of capital in Europe or anywhere else. India is the only agricultural country that has made investments of capital in other countries—to a small extent, and the investments of capital which India has made in other countries are completely overshadowed by her own enormous indebtedness to Great Britain.

Neither at the World Economic Conference of May, 1927, nor at the meeting of the International Chamber of Commerce held at Stockholm later in the same year, nor anywhere in the abundant literature on the subject of the "depression in trade" has any explanation been given why the industrial countries of Europe do not import foodstuffs, raw materials and other goods for consumption by their own peoples to the full extent of their exports to the colonial world, especially when it is acknowledged that the masses of the peoples of the industrial countries of Europe are in dire need of the foodstuffs, raw materials and other goods produced by the colonial world.

Neither economists nor financiers dare challenge the truth that the colonial world can buy goods and services from the industrial countries of Europe only to the extent of the imports of goods and services from the colonial world into the industrial countries of Europe. So long as the imports of goods and services into the industrial countries of Europe from the colonial world are less than the exports of goods and services from the industrial countries of Europe to the colonial world, the first condition of an expansion of genuine trade between the industrial countries of Europe and the colonial world must be the elimination of the excess of exports in the foreign trade of the industrial countries of Europe.

That truth was not, however, faced at the World Economic Conference of May, 1927, nor at the meeting of the International Chamber of Commerce at Stockholm later in the same year. Nor has that truth been squarely faced anywhere in the literature on the "depression in "trade." The usual cant on the "depression in trade" was stated in the City Notes columns of *The Times* on August 30, 1927, under the impressive sub-heading, "Conditions of Prosperity." *The Times* wrote:

> We cannot give other countries purchasing power, for that is inherent in their own production.

That is the ridiculous fallacy upon which all ideas in regard to foreign trade are based. *The Times* has written nonsense——such nonsense as no intelligent schoolboy should be guilty of, because even schoolboys ought to know that a country can pay for its imports only out of its exports. The expansion of the production of the colonial world would not add to its capacity to buy the manufactures of the industrial countries of Europe unless the industrial countries of Europe absorb an increased portion of that production. To absorb the surplus of the production of the colonial world available for export is exactly what the industrial countries of Europe have proved themselves chronically unable to do, despite the possession of the means, as shown by the excess of exports from the industrial countries of Europe.

Most emphatically, it is the industrial countries of Europe that give the colonial world the power to purchase the manufactures of Europe, for that purchasing power consists of the sale of colonial products in Europe.

There is no other form of purchasing power that the colonial world can acquire.

The Balfour Committee, although it has not frankly and freely admitted that a "revival in trade" can be effected only by Great Britain, to begin with, importing to the full extent of its exports, faced the realities of the situation sufficiently to recognize that the purchases of the colonial world must necessarily be limited to the amount of the sales of colonial products in the industrial countries of Europe. The committee laid down the following proposition:

> A consideration of cardinal importance is that *the capacity of overseas markets to absorb imports of manufactured goods is strictly limited by the outlets which are available for the exports of their local produce.*—"*Survey of Overseas Markets,*" *P. 12.*

During the World War of 1914–18 there was an unprecedented demand in Europe for colonial produce, and—as will be shown in a subsequent chapter—the colonial world responded magnificently to the demand. It was not the fault of the colonial world that the production was wasted by the peoples of Europe upon the battlefields.

It is reiterated with tiring frequency that Europe can pay for its imports of foodstuffs and raw materials only by the export of manufactures. It is necessary to remember that the colonial world can pay for its imports of manufactures from Europe only by the export of its own produce and that, as the balance of trade shows, the industrial countries of Europe are not playing the game—the total imports of each of the industrial countries of Europe are a good deal less than the total exports of each of the industrial countries of Europe. That is the basic fact in the economic relations of the industrial countries of Europe with the rest of the world.

The first condition of an increase of exports from the industrial countries of Europe to the colonial world is that the industrial countries of Europe should increase their imports of colonial produce to the full value of their total exports. In other words, the industrial countries of Europe must accept cash (not promises to pay) for the whole of their exports to the colonial world. The colonial world undoubtedly requires railway material, machinery of every kind and other goods. That does not, however, imply that such goods must necessarily be received by the colonial world on credit.

However large the production and however great the prosperity of the colonial world might be, payment by the colonial world for its imports from the industrial countries of Europe depends entirely and exclusively upon the extent to which the industrial countries of Europe absorb the particular classes of goods produced by the colonial world, namely, foodstuffs and raw materials.

There is a difference between the character of the goods exported by the colonial world and the character of the goods exported by the industrial countries of Europe that must be very clearly recognized. The foodstuffs and raw materials that the colonial world exports are not products that would keep for an indefinite length of time. Therefore, the exports of the colonial world must be finely adjusted to the actual annual consumption of the industrial countries of Europe. That limitation is absolutely decisive, because additional exports would only bring down prices——as proved by the crises in the eighties and the nineties of the nineteenth century——that is to say, the colonial world would give larger quantities of foodstuffs and raw materials for the same quantities of manufactured goods.

There is, in contrast, no limitation imposed upon the exports of Europe to the colonial world arising out of the character of the goods. The exports of Europe are manufactured goods, all of which may be retained for a long time before consumption. Most of them——railway material and machinery, for example——may be given on credit, because they have great durability. Moreover, railways may be constructed even before their construction is necessary, as has, indeed, happened in all the self-governing British dominions. By giving credit, therefore, the industrial countries of Europe are able to expand their exports to the colonial world irrespective of all other factors in operation in international trade.

The actual consuming capacity of the populations of the industrial countries of Europe—lowered as that consuming capacity is from the human power of consumption to the level of the economic power of acquiring—is a stone wall against which no art or artifice of the colonial exporter of foodstuffs and raw materials can prevail. Again and again—at any rate during the past half-century—the colonial world has had the experience of over-production.

The fact that prices of manufactured goods are higher since 1918 than the prices of foodstuffs and raw materials since 1918 proves that since 1918 a certain quantity of manufactured goods is exchanged for a larger quantity of foodstuffs and raw material than before the World War of 1914–18. That is a great advantage to the industrial countries of Europe, and the industrial countries of Europe possess that advantage since 1918 only because the production of foodstuffs and raw materials in the colonial world is regular and plentiful. If the demand for colonial produce in Europe was outrunning the productive power of the colonial world, a quantity of manufactured goods today would exchange for a smaller quantity of foodstuffs and raw materials than was obtained before 1914.

The self-governing British dominions, whose economic situation, as will be explained later, is gravely compromised by their indebtedness to Great Britain, feel a strong sense of dissatisfaction with the smallness of the market for their products in Great Britain and the other industrial countries of Europe. It is only in Great Britain and the other industrial countries of Europe that the self-governing British dominions can find a market for their products. The economic situation of Australia is critical, and in 1928 a Royal Commission was appointed, at the request of the Government of Australia, to inquire into the possibilities of expanding the trade between Australia and Great Britain.

The dissatisfaction of the self-governing British dominions with the extent of the market for their goods in Great Britain has expressed itself in the form of a demand for the grant of preferential customs tariffs on imports from the dominions. Any advantage that the dominions would derive from a preferential tariff would be at the expense of other countries that trade with Great Britain, such as the Argentine and Brazil, both of whom are also debtors of Great Britain, as they have borrowed very large amounts of goods from Great Britain and, therefore, are under an obligation to pay large sums in interest to Great Britain. Over £1,000 millions of British capital is invested in South America. What alone could serve the interests of all the debtors of Great Britain is an increase of the capacity to buy of the masses of the peoples of Great Britain and the other industrial countries of Europe at least to the full extent of the present exports of Great Britain and the other industrial countries of Europe.

The opposition of the British public to giving preferential customs tariffs to the self-governing British dominions has led the present Conservative Government to placate the self-governing British dominions by the allocation of a million pounds sterling annually for propaganda to popularize the goods of the self-governing British dominions in Great Britain. "Buy Empire "Goods" is the slogan of the day. That is definite evidence that the self-governing British dominions are not selling in Great Britain as much production as it is in their power to ship to Great Britain.

If the exports of goods from Great Britain to the self-governing British dominions on a cash basis are to be increased, the first condition is that the self-governing British dominions should be able to sell more of their products in Great Britain. That that is the point at which expansion must begin is conclusively demonstrated by the fact that the self-governing British dominions and the rest of the colonial world are already importing to the full extent of their means. Great Britain and the other industrial countries of Europe, in contrast, are not importing to the full extent of their means.

The net favourable balance in the foreign trade of Great Britain in each of the seven years, 1922 to 1928, as calculated by the Board of Trade, was:

Year	Net Excess of Exports
1922	£154 millions
1923	102 "
1924	86 "
1925	54 "
1926	9 "
1927	114 "
1928	149 "
	£668 "

Thus, despite the great coal strike of 1916, when imports into Great Britain were largely increased and exports from Great Britain were largely decreased, the imports into Great Britain have fallen short of the exports by £668 millions during the past seven years.

The import of goods to the value of £668 millions into Great Britain from the rest of the world—almost entirely the colonial world—during the past seven years would have made it unnecessary for the colonial world to borrow £668 millions in Great Britain.

There can be no question of the capacity of the colonial world to meet a greatly increased demand—a demand equal to the exports from Great Britain and the other industrial countries of Europe—for foodstuffs and raw materials.

Evidence that would run into a score of big volumes could be brought forward to show that, although the colonial world has always been able to produce and ship foodstuffs and raw materials to Great Britain and the other industrial countries of Europe to the full extent of the imports of manufactured goods into the colonial world, the colonial world has not been able to induce

Great Britain and the other industrial countries of Europe to import foodstuffs and raw materials to the full extent of exports of manufactured goods from Great Britain and the other industrial countries of Europe.

The colonial world has borrowed railway material, machinery and other manufactured goods from the industrial countries of Europe, because the industrial countries of Europe have hitherto possessed a monopoly in the production of railway material and machinery. Since the establishment of a modern iron and steel industry and the manufacture of railway material in India, India has practically ceased to borrow capital in Great Britain. The rise of the iron and steel industry in the United States of America was coeval with the decline of the import of capital from Great Britain to the United States of America.

Were the economic conditions in the industrial countries of Europe different from what they are, railway material and machinery would be bought outright for cash by the colonial world, that is, against exports of foodstuffs and raw materials for clothes, shoes, furniture and houses. The indebtedness of the colonial world to the industrial countries of Europe has been forced upon the colonial world—not because the colonial world consists of "new countries"—but because the imports of foodstuffs and raw materials from the colonial world to the industrial countries of Europe fall short of the total exports to the colonial world from the industrial countries of Europe.

CHAPTER VI

THE NATURAL LIMIT UPON EXPORTS

The Parallel Competition of the Industries of a Country

Because of the facility with which the industrial countries of Europe were able, before the World War of 1914–18, to find borrowers for the goods they exported in excess of their imports of foodstuffs, raw materials and manufactured goods, there is one factor that regulates the export trade of a country under normal conditions of genuine trade that has been completely ignored. That is that the exporting industries of a country are in a state of unceasing competition with each other for a place in the export trade.

The competition that an exporting industry is expected to resist is the corresponding industry in other countries. Thus, the steel industry in Great Britain is recognized to be in competition with the steel industry in Belgium, France and Germany. But it is not understood that, in addition to such foreign competition, the steel industry in Great Britain is also in competition with other exporting industries in Great Britain for a place in the export trade of Great Britain.

Thoroughly to appreciate the influence of that factor upon the fortunes of individual industries, it is necessary very clearly to bear in mind, firstly, that the total value of the exports of a country——unless a portion is given on credit——is limited to the value of the imports, and, secondly, that the total exports of a country form but a small part of the total output of all the industries of a country.

The export trade of a country is a national enterprise, which, even in the most favourable circumstances, can engage the labour of only a small part of the population. There is nothing startling in the fact that there are many industries in every country that do not export at all, although the same industries in a neighbouring country might be exporting most of their production. Nor is it a matter for astonishment that some industrialists refuse to develop their export trade. In newspapers and books, manufacturers of some classes of goods in Great Britain have been accused of an unwillingness to enter the export trade. Is it possible to conceive of all the industries of Great Britain exporting all of their present production? Obviously, a line must be drawn somewhere.

Naturally, in a country like Great Britain, where there are many industries, differing very much from each other in the conditions under which they are conducted, some industries are bound to possess advantages over other industries in the export of goods abroad. The export of bunker coal from Great Britain at once leaps to the mind. The coal-fields of the United States of America, France and Germany are far removed from the coast, whereas many of the best coal-fields of Great Britain are situated near the coast in proximity to harbours that are on the highroads of international trade. Great Britain, as a result, secured a virtual monopoly of the bunker coal trade. With the wide use of oil fuel on ships the export of bunker coal has naturally declined.

Other industries situated near the coast of Great Britain possess a similar advantage in the export trade over industries situated in the heart of the country. The industries in London and on the Tyne have not complained of the practice of the British shipping companies of charging British exporters higher freight rates than the British shipping companies charge exporters on the continent of Europe. The industries situated in Birmingham and its neighbourhood, however, have frequently protested against the freight rates of British shipping companies. The explanation is that, as the industries in Birmingham are compelled to bear the cost of the transport of their products by railway to the coast—a charge that industries situated near the coast are not called upon to bear—the industries in Birmingham are more sensitive to the effects of small differences in shipping freights.

Now, while the imports of Great Britain continue to maintain the level they attained before the World War of 1914–18—in fact, as has already been seen, have attained an even higher level—the decline in the exports of bunker coal provides the other exporting industries of Great Britain with the opportunity of increasing their own exports. An analysis of the exports of Great Britain shows precisely that development. Indeed, the most marked feature of the changes that have taken place in the export trade of every country in the world during the past fifteen years is the expansion of the exports of certain industries parallel with the decline of the exports of other industries. The decline of one industry has been compensated by the rise of another, and except for the complete collapse of exports of goods and services on credit, no difference at all has been made in the total export trade of any country.

Definite recognition of the remarkable fact that the decline of certain exporting industries has synchronized with the rise of other exporting industries in Europe is found in the Final Report of the World Economic Conference of May, 1927, in which it is stated:

> The depression is clearly concentrated in certain main trades. . . .
>
> The condition of these trades is in sharp contrast to that of many industries providing articles of immediate consumption or even of luxury. The production of motor-cars, artificial silk, and rubber goods may be taken as examples.—*Paragraph 5.*

That contrast is more marked in Great Britain than in any other country, and it was referred to in terms of perplexed emphasis in the Memorandum of the British delegation to the World Economic Conference. Of the decline of exports it was stated:

> Its effects are very clearly seen in the figures of unemployment for five industrial groups, viz., coal, iron and steel, cotton,

wool and engineering including shipbuilding. Unemployment in these trades is dominated by the export situation. These five industries between them accounted for more than half the numbers unemployed in the month preceding the temporary coal subsidy (July 1925).—*Paragraph 10.*

The restriction in the volume of our export trade has not been accompanied by a corresponding restriction of the general economic activity of the country as a whole.—Paragraph 11.

The sharp contrast between the state of the coal, iron and steel, engineering and cotton and woollen textile industries and the state of " many industries providing " articles of immediate consumption or even luxury " has puzzled commentators on the economic situation. It is assumed that because certain new industries have developed a flourishing export trade, there is no reason why the industries that provided the major portion of the exports in pre-war times should not continue to maintain their old position.

That attitude of mind was revealed by Sir Herbert Hambling speaking at the thirty-third meeting of the shareholders of Barclays Bank in 1928. He said:

Coal, iron and steel and cotton are not in a healthy condition, but when I look at the activity in the newer industries, providing such goods as electrical equipment, motor-cars, artificial silk, wireless appliances, etc. . . . in which technical skill, brains and efficiency are such important factors, it does occur to me that in the older industries something is lacking.

I sometimes wonder whether some of the older concerns have kept themselves really up to date in efficient organization, modern machinery, etc., or whether they have traded on their reputation of fifty years ago.—" *The Times*," *January 20, 1928.*

However close all the industries in Great Britain might approximate in efficiency, some industries must possess slight advantages over other industries in exporting goods to oversea countries, and the total amount of the exports being ordinarily limited to the amount of the imports, the intensification of the competition for the export trade among the industries of Great Britain would make no difference whatever to the amount of the total exports from Great Britain.

The goods that are exported from a country must pass through a veritable bottle-neck. That bottle-neck is made by the imports. It is true that the industrial countries of Europe before the World War of 1914–18 stretched that bottle-neck by giving goods on loan. It is true that the United States of America is now doing the same. That, however, does not alter the fact that, in genuine trade, exports are a reaction to imports and that the limit of that reaction is the limit of the imports.

An important development that has taken place in transport in recent years is the partial replacement of railway transport by motor transport. The railways in Great Britain, for example, have asked Parliament for the power to run motor transport services, because their best transport business is being taken away from them by the motor transport companies. Under such conditions throughout the world, it is inevitable that there should be an increased demand for motor trucks and a decreased demand for railway wagons. It is inevitable also that the industries in Great Britain that produce railway material should experience depression and that the motor industry should prosper. The prosperity of the motor industry is not, as Sir Herbert Hambling would argue, a reason why the industries that build locomotives and railway wagons and other railway material should also enjoy prosperity.

Motor transport is displacing railway transport in the colonial world as much as in Europe. Before the World War of 1914–18, Australia imported (on credit) immense quantities of railway material from Great Britain. To-day Australia imports large numbers of motor cars and trucks (also on credit) from the United States of America.

In every part of the colonial world the competition of road motor services with the railway services is giving rise to serious anxiety to the administrations of the railway services. The establishment of aeroplane services is, in the same way, affecting railways.

The services that Great Britain exports have been described by Mr. Arthur Michael Samuel, Financial Secretary to the Treasury, in a memorandum on the balance of trade that he prepared for the British Association of Chambers of Commerce. He writes:

> The services rendered by Great Britain to other countries are usually grouped under three heads.
>
> The most important is shipping. . . .
>
> There is a second great group broadly described as commissions, which includes the value of various services rendered in this country for the benefit of persons resident abroad. Under this head fall brokers' commissions, merchants' commissions on overseas produce, insurance premiums (less claims paid), bankers' commissions, discount charges on oversea bills of exchange and payments made to us for other commercial services. . . .
>
> Finally, there is a group of miscellaneous receipts in respect of overseas tourists' expenditure here and many other items which do not fall under the previous head

There is a further item of invisible exports, that is, the coupons which investors in Great Britain send out every year or every half-year in order to collect the interest on the investments of capital that they have made in oversea lands.

All the industries and occupations that have a place in the export trade of Great Britain can, accordingly, be grouped as follows:

First, the present depressed exporting industries, namely, coal, iron and steel, cotton and woollen textiles and engineering, including shipbuilding.

Second, the present prosperous exporting industries.

Third, the mercantile marine and the agency and banking houses.

Fourth, the money-lenders or investors in Great Britain who hold investments of capital in oversea lands.

The total imports of Great Britain being approximately £1,100 millions sterling, the exports must necessarily be limited to that sum——except in so far as goods or services might be exported on credit. Now, it follows that there must be a fierce struggle among the rival groups of industries to avoid being squeezed out of the export trade. The only means the rest of the world has for the payment of interest on borrowings of loans from Great Britain, the payment of the services of the mercantile marine of Great Britain and the purchase of the products of the industries of Great Britain is the £1,100 millions of goods sold to Great Britain. If, therefore, the rest of the world meets its obligations in interest and pays for the services of the mercantile marine, obviously the extent to which the rest of the world could buy British manufactures must be limited.

It is always taken for granted that an increase of exports must give rise to a corresponding increase of imports, but the experience of a hundred years has shown that the imports of the industrial countries of Europe consistently lag behind their exports, giving rise to the export of goods and services on credit or the export of capital. If exports automatically gave rise to imports, there would be no such phenomenon as a trade cycle or a depression in trade. Exports would be continuously chasing imports, and imports would be continuously chasing exports. But while the imports of Great Britain remain stationary or expand only slowly, it is inevitable that the expansion of the amount payable as interest to Great Britain or an expansion of the demand for the services of the mercantile marine or of the services of bankers and brokers should be attended by a decline in the demand for coal, iron and steel manufactures, cotton and woollen textiles and machinery—except to the extent that such goods are given on credit.

The industrial countries of Europe are not the first to have the lesson forced upon them that a country cannot pay twice for its imports and that the rise of one exporting industry must prove the decline of another, unless the expansion of the new industry is exactly balanced by a corresponding increase in imports.

In the first decade of the present century the cotton mills in India used to export large quantities of cotton yarn to China and large quantities of cotton textiles to the Levant, Mesopotamia and East Africa. The cotton mills in India have since lost the trade in the Levant to Italy and the balance of their foreign trade to Japan.

The familiar explanations——exchange, cheap labour, non-ratification of the Washington Convention, subsidies ——have all been repeated times without number. No one has paused for a moment to consider that, with a large and unmanageable excess of exports over imports as a permanent feature of the foreign trade of India, the expansion during the past three decades of the exports of wheat, jute and raw cotton from India was bound to force down the exports of cotton yarn and cotton textiles from India.

That the expansion of the exports of certain industries proves disastrous to the exports of other industries has been observed in the foreign trade of the United States of America.

The trade returns of the United States show that, although the total exports are increasing, yet, over a period, there is a gradual decline in the proportion of agricultural produce and of raw material exported, except in certain commodities, including oil, which continue to increase.—*Mr. F. C. Goodenough, Chairman of Barclays Bank at the thirty-third ordinary general meeting (1928).*

That tendency was observed in the United States of America by Professor F. W. Taussig at the commencement of the present century.

These preliminary matters point to the first important proposition with regard to international trade.

A country exports the things which are low in price in its borders; these are things in which its labour is applied effectively. Put in words more often used in the literature of economics, a country tends to export those things in which it has a comparative advantage.

And, conversely, a country tends to import those things which, if produced within its borders, would be high in price—those in which its labour would be applied with less effect, those in which it has a comparative disadvantage.—"*Principles of Economics,*" *Volume I, P. 482.*

Professor Taussig gave wheat as an example of a commodity which was exported from the United States of America because of a comparative advantage.

The Balfour Committee on Industry and Trade has thus recorded the rise of exports of manufactured goods and the decline of the exports of wheat and other foodstuffs from the United States of America:

> Concurrently with the development of a huge manufacturing power in the United States the growth of wheat and meat from that country has been checked.—"*Survey of Overseas Markets*," *P. 12.*

The decline in the exports of wheat from the United States of America—it was artificially stimulated by state aid after the World War of 1914–18——is all the more remarkable in view of the very large increase in the total imports of that country. It shows what enormous pressure has been exercised by the rival exporting industries upon the exports of the wheat industry that the exports of wheat have had no opportunity of expanding, despite the fact that upon the other side of the northern frontier Canada has been exploiting the world's demand for wheat and building up an export trade in that commodity with a rapidity that is almost without a parallel in international commerce.

The explanation that Professor Taussig gives of the phenomenon is as follows:

> Obviously, it is to the interest of a country to turn its labour into the most advantageous channels; not merely to those industries in which it is at no great disadvantage or has only a slight advantage, but to those in which it has the greatest advantage.—"*Principles of Economics*," *Volume I, P. 489.*

At the time at which Professor Taussig wrote (1909) no country had had the experience of the prolonged unemployment of over a million workers, although in Great Britain for over a decade there always were hundreds of thousands of workers out of employment. In a debate in the House of Commons on November 8, 1928, Mr. Winston Churchill pointed out that the first unemployment insurance scheme had been introduced by him in

Parliament twenty years before and that previous to the World War of 1914–18 the number of unemployed was somewhere about 300,000 or 400,000 and that in 1908 the figures approached nearer to a million.

Professor Taussig did not take the trouble to explain the decline of industries in a country even after all the industries " in which it has the greatest advantage " had been fully supplied with all the labour they needed. The most economical and effective distribution of the available labour supply of a country is, therefore, a wholly unacceptable explanation of the economic phenomenon detected by Professor Taussig a quarter of a century ago.

That wages, as Professor Taussig has argued, is the determining factor in what might be described as the principle of natural selection in the constitution of the export trade of a country is also disproved by the recent experience of Great Britain. Following upon the great coal strike in 1926 in Great Britain, the number of working hours per day in the mines was increased from seven to eight, thereby bringing down the cost of production of every ton of coal. It was asserted by the owners of the coal-mines that such a reduction in the price of coal at the pit's mouth would enable them to regain their lost export trade. But although British coal is now very much cheaper per ton than it was before the great strike of 1926, there has been no improvement in the exports of coal, and the condition of the industry is no better than it was three or four years ago.

During the past six months values have been relatively stable after the almost continuous decline which brought down average export prices from 21*s.* per ton in January, 1927, to 15*s.* 9*d.* per ton a year later. Comparison, however, of 1928 with 1925 reveals *the significant and disquieting fact that, despite a price-cut of 4s. 1d. a ton, exports this year have been 139,000 tons a month lower than in the extreme depression three years ago.*

Taking the first half only of 1925, we find that in that period exports averaged 212,000 tons a month more than in January–June 1928, while average values were 5*s.* per ton higher. . . .

Comparing 1928 with 1925, price reductions range from 2s. 5d. per ton, in the case of exports to Germany, to 5s. 9d. per ton on shipments to South America.

There is evidence of recovery of a moderate amount of ground in the Dutch, German and South American markets, but exports to Scandinavia and France, despite cuts of 3s. 3d. and 4s. 3d. per ton respectively to those destinations, have fallen heavily, while a reduction of 4s. 6d. per ton in price has failed to stimulate Italian demand.—"*The Economist,*" *July 21, 1928, P. 116.*

So long as the imports of Great Britain continue to be paid for by the exports of the industries that are now flourishing, and so long as there is no increase in the imports, there can not by any means——except the lending of goods on credit——be created conditions in which an increase in the exports of coal from Great Britain might be brought about.

One needs the exercise only of the most elementary common sense to understand that, if, as is quite obvious, all the industries of a country can not participate in a fixed proportion in the export trade of a country, some industries will enter the export trade and other industries will be kept out of the export trade.

Those simple and self-evident truths have to this day, however, remained unperceived. During the past eight years Great Britain——a country with a huge annual excess of exports over imports——has been striving further to aggravate the maladjustment of the balance between exports and imports.

It is sufficient for all the politicians, economists, bankers, merchants, industrialists and labour leaders that there are a number of industries in a state of depression and that there are a million and a half of workers unemployed. The responsibility for the economic situation of the country has been placed upon certain undefined geographical territories under the vague and comprehensive appellation of "oversea markets."

The "oversea markets" must, so it is argued, absorb all the goods the British people choose to export, whether those goods are in excess of what the rest of the world (with its sense of fair dealing) is content to demand in payment of Great Britain's imports or not! Great Britain literally tells the rest of the world: "Buy our goods if "you can, borrow them if you must, but, whatever you "may do, take them off our hands. We must get rid of "the stuff, whether you choose to pay us for it or not."

Every political party in Great Britain, with the full support of the economists and the practical businessmen, has placed the responsibility for the depressed state of several industries upon the local rates. The most severe criticism of the Government's scheme has been that the relief to the productive industries is, under the Government scheme, postponed till the autumn of 1929. The other political parties would practise greater expedition.

The local rates are only an excuse, upon which all the political parties in Great Britain have been glad to fall back, to explain the economic situation. The local rates, certainly, did not interfere with British exports before the World War of 1914–18. Nor must it be forgotten that there always was heavy unemployment in the decade preceding the World War, whatever were the merits or the demerits of the local rates. It is impossible to understand how the local rates should be responsible for a million and a half unemployed today.

The burden of the local rates has been grossly exaggerated because no explanation can be given of the economic situation. The total amount of the local rates levied in Great Britain is only £150 millions, and the maximum amount of the relief to be granted to agriculture and the industries (the combined annual production of which is probably over £3,000 millions) is the pitifully small sum of £30 millions. The provision for the de-rating scheme in the Budget for 1929–30 is only £15,560,333.

The criticism that the Rt. Hon. John Wheatley passed on the whole scheme in the debate in committee on the Rating and Valuation (Apportionment) Bill is unanswerable. He said:

No one believes in his heart that the proposals before us are

£20,000,000 or £30,000,000 could at any time have put the industries of the country on their feet, as is seriously suggested now, this House of Commons has been criminally negligent during the seven years in which industry has been depressed.—*Parliamentary Debates, House of Commons, Volume 218, Column 1,674.*

Nearly all participants in the controversy over the responsibility of the local rates for the economic situation have placed great emphasis upon the incidence of the local rates. Examples have been given of the local rates in some areas amounting to between six pence and one shilling per ton of coal. If the incidence is so heavy in certain areas, the incidence must necessarily be trifling in other areas, for on no other supposition is it possible to explain the fact that the total amount of the local rates paid by industry amounts to a comparatively trifling sum.

The fact that one coal-mine pays a shilling per ton in local rates can be no explanation at all of the failure of other coal-mines—which, according to the argument do not have to bear a heavy burden in local rates—successfully to compete with foreign coal-mines. The mines, mills and factories where the incidence of the rates is low should be in so flourishing a condition that they should absorb all the unemployed. The only effect of the present local rates should be to cause a particular geographical distribution of production. Whatever may be the cause of the depression in certain industries, the local rates are not the cause, and the depression will continue long after the reduction of the local rates paid by the productive industries.

The worst feature of the rating scheme of the Government is that relief from the payment of local rates is to be given to both the prosperous and the depressed industries. That aspect of the measure has been severely attacked by the Opposition parties, but the ground taken up by them—very logical indeed—is that there is no justice in imposing financial burdens upon the general taxpayer in order to increase the profits of firms like Courtaulds, which have been showering huge dividends and handsome bonuses upon their shareholders year after year.

The real mischief of the Government scheme, however, is that *it does not improve the depressed industries relatively to the prosperous industries* and that, as a result, the prosperous industries will retain the comparative advantage they now enjoy in the export trade. For example, the relief from the local rates might be utilized by the prosperous industries to reduce their export prices.

If it is indeed preferable for Great Britain to pay for imports of foodstuffs by exports of coal rather than of motor cars, the only effective means is to give a direct subsidy to the coal industry. Immediately after the World War of 1914–18 the exports of wheat from the United States of America were greatly increased by the payment of a subsidy——a measure for which the present President of the United States of America, Mr. Herbert Hoover, was largely responsible.

The de-rating scheme of the Government is based upon the fundamental misconception that the export trade of Great Britain can be developed without reference to the import trade. That misconception arises from the belief that the amount of the goods that a country might give on credit to the rest of the world is capable of indefinite expansion.

Under existing conditions in Great Britain, the de-rating scheme of the Government can add to the exports of the depressed industries only if the economy of the country permits of production of vast quantities of goods for export on credit to the colonial world. The Government's proposals are doomed to failure, and the only purpose they serve is the fooling of all of the people for some more of the time.

Great Britain is engaged in the ridiculous task of trying to pay twice over for its imports of foodstuffs, raw materials and other commodities. That that aspect of the trade position of the country has not been perceived by the people of Great Britain, so justly celebrated for a sense of humour, proves the abysmal ignorance of economic facts among all classes——from Cabinet Ministers to ca'canny trade unionists.

CHAPTER VII

THE CONDITIONS OF INTERNATIONAL TRADE

The Problem of Foreign Competition in the Home Market

None of the industrial countries of Europe that are now the victims of the economic conditions described as the depression in trade has, up to date, experienced any difficulty whatever in paying fully for imports of goods and services under normal conditions of peace and trade. On the contrary, every one of them (not excepting Belgium, which has the poorest natural resources and the densest population) had, before the World War of 1914–18, consistently, during a long period of years, maintained an excess of exports over imports of goods, services and the precious metals. An excess of exports over imports has, in fact, been the hallmark of every industrial country in Europe.

Nor have the industrial countries of Europe failed to pay for imports of goods and services by the export of goods and services since the World War of 1914–18, despite complete disorganization of trade and industry till the end of 1923.

It is true that a considerable part of the imports of goods into Central and Eastern Europe in recent years consists of loans from the United States of America. Those loans, however, reveal the necessity of the United States of America to lend rather than the necessity of the countries of Central and Eastern Europe to borrow. Emissaries of American banks and issuing houses have scoured not only every country in Europe but also every country in every continent in search of governments, municipalities, other public bodies, private companies and even private individuals upon whom loans could be forced. Europe had received until the end of 1926 only twenty-nine per cent. of the loans that the United States of America had given to foreign countries after the World War of 1914–18. (*American Investments in Europe, P. 16.*)

When the World War had terminated on November 11, 1918, the peoples of the former German and Austro-Hungarian empires were in need of foodstuffs, raw materials and manufactured goods. During the previous four and a half years the peoples of the former German and Austro-Hungarian empires had been cut away from commercial intercourse with almost the whole of the rest of the world, had confined themselves to the production of only goods needed for war purposes and for their own sustenance and had consumed very nearly all they had annually produced. During the two critical years immediately following the Armistice, namely, 1919 and 1920, however, whatever assistance the peoples of the former German and Austro-Hungarian empires received from the United States of America came from the small hand of charity.

In the three years, 1921, 1922 and 1923, the total of American publicly placed loans to the countries of Europe, according to the estimate of Dr. Max Winkler (*American Investments in Europe, P. 17*), was only $476,000,000, or less than £100,000,000. The private loans, if any, were inconsiderable. For purposes of comparison it might be mentioned that the first Anglo-French War Loan in the United States of America in 1915 was for £100,000,000. For the first five years following the Armistice the United States of America left the countries which had constituted the German and Austro-Hungarian empires and the Balkan states to stew in their own juice. It was not until after the era of economic chaos had been definitely brought to a close that the United States of America advanced loans on a considerable scale to countries in Europe.

Of none of the countries in Europe, which have borrowed from the United States of America, with the exception of Austria and Belgium, can it be suggested that the payment of the annual imports by the annual exports is, as a matter of calculation, impossible—apart from the fundamental falsity of the proposition. The largest borrower has been Germany, second only to the United States of America in the whole world in wealth of developed natural resources.

Mr. Ellis Barker writes:

> Imports are paid for by exports. If England can not pay foreign nations for the raw materials and food which she needs with her manufactured goods, her import trade will decline and millions of her people will be forced to emigrate through lack of work.—"*America's Secret*," *P. 403.*

Now, in the first place, Great Britain has during the past one hundred years exported greatly in excess of the total imports of "raw materials and food which she "needs" and of other goods as well, and only a writer in a very hysterical state of mind would, in the face of that fact, suggest that the lack of the ability to pay for imports of foodstuffs and raw materials by exports of manufactured goods is one of the prospects that at present threaten the British people.

In the second place, Mr. Barker and people who make statements of the kind he has made must somewhere in the recesses of their minds entertain the belief that trade is either robbery or charity. A country can trade with other countries only on two conditions, namely:

Firstly, that the country has some goods or services to give other countries,

Secondly, that other countries have a surplus of the commodities wanted and are willing to exchange them for what is offered.

Unless those conditions exist between a country and other countries, a country will never have any trade at all, however great may be the need of the inhabitants for the products of other countries. The mere fact that the quantity of food produced in Great Britain is insufficient to feed its people will never bring a bushel of wheat into Great Britain, except in charity. If the people of Great Britain are to obtain adequate imports of foodstuffs and raw materials, it is indispensable that they have goods of equivalent value for export, and, what is absolutely decisive, that the countries that produce the foodstuffs are agreeable to accepting the manufactures of Great Britain in exchange for the foodstuffs.

That truth is illustrated in the history of the foreign trade of India. When Vasco da Gama found the sea route to India in 1498, India was completely self-contained. In the sixteenth and even in the seventeenth century India neither needed nor desired foreign trade, and the peoples of Europe had neither manufactures nor other goods to offer the people of India in exchange for the products of India. The only goods the European traders could offer the Indian traders were gold and silver that had been plundered in America. When, in the seventeenth century, that means of payment for the products of India was exhausted, the British East India Company and its officers had no alternative but to plunder the people of India in order to get possession of the products of India for shipment to Europe. It was not until Great Britain had begun the manufacture of goods by steam-power and the hand industries of India had declined that Great Britain acquired the means to pay for imports of foodstuffs and raw materials from India.

China, like India, was economically a completely self-contained country a century ago. Great Britain wanted the products of China, especially tea and silk, and had nothing to offer China but opium. Neither the Government of Great Britain nor the British merchants had any more interest in corrupting the Chinese than in christianizing them. The English merchants introduced opium into China because that was the only commodity with which they were able to pay for purchases of the products of China.

The chief cause of complaint adduced by the mandarins was the introduction of opium by the merchants, and for years they attempted by every means in their power to put a stop to its importation. At length, Captain (afterwards Admiral Sir) Charles Elliot, the superintendent of trade, in 1839 agreed that all the opium in the hands of Englishmen should be given up to the native authorities, and he exacted a pledge from the merchants that they would no longer deal in the drug.

On the 3rd of April 20,283 chests of opium were handed over to the mandarins and were by them destroyed.

The surrender of the opium led to further demands by Lin Tze-su, the Chinese imperial commissioner, demands which were considered by the British government to amount to a *casus belli* and in 1840 war was declared.—"*Encyclopædia Britannica*," *Thirteenth Edition, Volume VI, P. 199.*

What happened in Asia in the seventeenth and eighteenth centuries is happening in Africa today. European traders go to Africa to obtain ivory and the other products of that continent, and, because they can not persuade the natives to accept the useful manufactures of civilised peoples, they give them liquor upon which they might demoralize themselves and arms and ammunition with which to blow each other's brains out.

The foreign trade of Great Britain depends, firstly, upon Great Britain's capacity to give suitable goods in exchange for the foodstuffs and raw materials that Great Britain needs, and secondly, upon the willingness of the rest of the world to trade with Great Britain. The Tlascalans of ancient Mexico were compelled to live for centuries without so necessary a commodity as salt because they owned no salt-mines and the road to the sea was barred by hostile tribes. There is no trick of trade and no artifice of finance that could make the Sahara or Greenland (in the present state of scientific knowledge) support a population of a hundred millions.

If the peoples of Europe reach a stage when they will be able neither to raise all the foodstuffs they need nor to persuade the peoples of other countries to make up the deficiency in exchange for certain manufactured products, the peoples of Europe will have to choose between death and emigration. The peoples of Europe are, fortunately, very far from having reached such a stage. Nor is there reason to believe that such a situation is more than a theoretical possibility for any length of time that could be included in the calculations of the present generation.

Trade—whether internal or foreign—is only an exchange of goods by mutual agreement. The total wealth of a country is entirely dependent upon the amount of its own production, just as the amount of food or clothes that a man obtains depends upon the amount of his own labour. The amount of wealth possessed by each of the inhabitants is entirely dependent upon the equity of the distribution of the wealth, just as the amount of food, clothes and other commodities that each member of a family receives depends upon the equity with which the head of the family provides for each member of the family. Foreign trade does not produce wealth. Foreign trade only ensures the introduction into the country of certain classes of goods that can not be produced in the country. The function of foreign trade is to supplement the production of certain commodities, of which there is an incorrigible deficiency, by the exchange of the surplus of other commodities, of which there is an incorrigible excess.

The fact that the total exports of Great Britain in each year already greatly exceed the total imports is absolutely decisive proof that the people of Great Britain as a whole have the power to import additional foodstuffs from overseas. If additional quantities of foodstuffs are forced upon the British people from overseas, the competition of those additional quantities of foodstuffs—in the absence of an expansion of the power of the masses of the people to command larger quantities of foodstuffs and other necessaries of life—would inevitably kill what is left of agricultural production in Great Britain.

The foodstuffs and raw materials that are now being imported into the industrial countries of Europe are steadily displacing the production of foodstuffs and raw materials in the industrial countries of Europe. Under the capitalist system, larger imports of foodstuffs and raw materials could be made into the industrial countries of Europe only by the reduction of agricultural production in the industrial countries of Europe, and, as already shown, in the eighties and nineties of the nineteenth century the industrial countries of Europe felt themselves obliged to take measures to stem the flood of imports of foodstuffs and raw materials from the colonial world.

It can not, therefore, be argued that the export of manufactures and other goods from the industrial countries of Europe has been forced upon the industrial countries of Europe by the necessity of making payment for imports of foodstuffs and raw materials. If the causes of the decline of agriculture in the industrial countries of Europe had not been in operation, the exports of the industrial countries of Europe would never have attained the dimensions the exports of the industrial countries of Europe attained in the period before the World War of 1914–18. The further decline of agriculture in Europe is the first condition of a further expansion of the export of manufactures, unless the consumption of foodstuffs in the industrial countries of Europe, *to begin with*, is very greatly increased.

The decline of the production of foodstuffs and raw materials in the industrial countries of Europe and in the United States of America is due to the operation of certain causes that will be set forth by the present writer in another work, *The Mystery of the Depression in Agriculture*. The decline of agriculture in the industrial countries of Europe—by making it possible for the industrial countries of Europe to receive payment in foodstuffs and raw materials for exports of manufactures—has stimulated the expansion of the exports of manufactures.

Great Britain is the greatest exporting country only because Great Britain is the greatest importing country. British exports of manufactures have increased since the establishment of Free Trade, not because, as the Free Traders argue, imports of cheap food and raw material have given Great Britain an advantage in competition with Protectionist countries, but because the decline of agriculture in the nineteenth century created conditions in which payment could be received for large exports of manufactures.

If Great Britain, by the export of large quantities of manufactured goods, puts other countries in its debt, those countries are forced to exploit every means of making payment to Great Britain. It is always supposed that the exports of Great Britain bring in exchange or should bring in exchange only foodstuffs and raw materials. That supposition is disproved by the customs returns of the imports of goods into Great Britain.

There is no obligation upon any country to export only foodstuffs and raw materials to Great Britain, and people in Great Britain who manifest alarm at the increase in the imports of foreign manufactures into Great Britain completely fail to recognize that the imports of manufactures into Great Britain take place only because Great Britain chooses to export manufactures greatly in excess of what is needed to pay for the foodstuffs and raw materials that the people of Great Braitain are able to absorb.

> One might go further and point out that the British market itself is being invaded by an increasing flood of foreign imports to the detriment of British industries and to the loss of British labour, and clearly that has not been due to higher tariffs in the Empire.—"*The Times Trade and Engineering Supplement*," *May 28, 1927*.

The exports of Great Britain tear a rent in its fiscal defences, and the only way to stop undesired imports is to stop unnecessary exports. There is no other way. So long as Great Britain follows its present exporting policy there is no Safeguarding of Industries Act that any House of Commons or any Conservative Cabinet could devise that would stop the "increasing flood of "foreign imports."

At the annual meeting of the Peninsular and Oriental Steam Navigation Company in 1927 Lord Inchcape quoted the following remarkable statement made by

Joseph Chamberlain in 1895, when Joseph Chamberlain was still a Free Trader:

> If by any means, by protection or any other, you shut the door upon foreign goods, you may be quite sure that the result will be that fewer British goods will go abroad. Whatever foreign countries may do in their endeavour to close their markets to our trade, so long as they send goods here they are obliged to take our goods in return.

It is a corollary to that proposition that the larger British exports become, the greater must be the effort that foreign manufacturers will make to ship goods to Great Britain.

Professor F. W. Taussig observed, at the beginning of the present century, a mysterious decline of certain industries in the United States of America, although those industries had, apparently, all the advantages of the rival industries in foreign countries. He explained the phenomenon on traditional lines.

> If a country, though under no disadvantage in a commodity, nay, though possessed of an advantage in producing it, has here less advantage than in other commodities, the first sort will be imported.
>
> For example, labor in the United States is no less productive in growing hemp than labor in Italy or Russia; it is probably more so; none the less, hemp is imported from those countries.
>
> Labor in this country is no less productive in producing flax fiber than labor in Belgium, or in making linens than labor in Germany or Ireland, but flax and linen are still imported, and this in face of a considerable duty (hemp, as it happens, is duty-free).
>
> Coarse wool, such as is used in making carpets, could be grown here with as little labor as in China, Asia Minor, Russia, and sundry other backward countries, from which, none the less, it is steadily imported.
>
> The everyday explanation of all these phenomena is that labor is too dear in the United States. The explanation is true enough, as far as it goes——but why is the labor dear ?—" *Principles of Political Economy*," *Volume I, Pp. 488–89.*

If Great Britain insists upon the export of more iron and steel goods, more coal, more woollen and cotton textiles, more motor cars, more silk goods, more machinery and more services than are needed for the payment of imports of foodstuffs and raw materials, the countries that trade with her have absolutely no other alternative than to send to Great Britain (in payment of their purchases) cutlery, brown paper, kid gloves, musical instruments, safety-razor blades, pottery, glassware, sugar and any other commodity for which a buyer might possibly be found in the country—whether there be safeguarding duties or not. If the safeguarding duties prove effective in protecting the industries that are first attacked, and that is quite possible, Great Britain's customers—no one else is interested in sending goods to Great Britain—will send other manufactures, and when every expedient has failed, they will be forced to send Soviet oil—despite the (erstwhile) opposition of *The Daily Mail!*

The buyers of British goods can send to Great Britain only the kinds of goods that people in Great Britain will buy. People in foreign countries who buy British goods must honour British drafts, and British drafts can be honoured only by the shipment of goods to Great Britain —potatoes, if possible, but petrol, if necessary.

There are only two impervious barriers to imports. They are the poverty of the masses of the people of a country and the limitation of the exports of a country. The poverty of the masses of the people of Great Britain constitutes an invisible tariff wall higher than any tariff wall that could be raised by the legislating skill of the Conservative Party.

It is perfectly true that Protection in Great Britain would reduce the exports of Great Britain. That is the highest recommendation that Protection could possess as an instrument for the safeguarding of the home market against the " increasing flood of foreign imports," because nothing would more effectively keep foreign manufactures out of Great Britain than a decline of visible and invisible exports from Great Britain to the level of what is needed to pay for imports of foodstuffs and raw materials alone.

CHAPTER VIII

THE IMMEDIATE EFFECT OF THE EXPORT OF GOODS ON CREDIT

The Masses of the People are Robbed of The Goods They Need

WHEN a country exports goods on credit to other countries, it sustains, to begin with, a loss of wealth.

Professor A. C. Pigou, who is a strong advocate of the export of capital, makes the following very damaging admissions:

> The funds for investment must be obtained either by exporting goods or by refraining from the import of goods to which we have a claim. . . .
>
> *In any event the volume of things immediately available in this country will be diminished. This is practically certain to involve a direct injury to labour either by making the things workpeople buy more expensive, or by reducing the supply of tools and machines that help them in production.*
>
> It is true that, since some capital will have been withdrawn from home uses, the rate of interest here will go up, and this will encourage saving to create more capital. But this tendency can only mitigate, and not wipe out, *the initial injury to labour.*
>
> *It follows that labour must be less well-off, in terms of things in general, than it would have been if the opening for investing capital abroad had been closed.*—"*The Economics of Welfare,*" *P. 621.*

In January, 1918, the Government of Great Britain appointed a committee on currency and foreign exchange, of which Lord Cunliffe, Governor of the Bank of England at the time, was chairman. The committee states in its Final Report:

> The difficulties of the Foreign Exchanges' position are aggravated by the grant of long-term loans and credits, whether directly or under guarantee or otherwise by the Government or by private

lenders, to enable foreign States or their nationals to pay for exports from this country.

Few of these loans and credits will be liquidated at an early date.

The large payments which we have to make to America, North and South, for necessary imports of foodstuffs and raw materials from those countries, make it essential that we, in our turn, should secure payment in cash for as large a proportion as possible of our exports, visible and invisible.

We recommend therefore that preference should be given to exports to countries which are able to make payment in the ordinary course of trade.—Paragraph 3.

Messrs. Foster and Catchings of the Pollak Foundation for Economic Research in the United States of America are advocates of the export of capital from their country.

We do not oppose export trade and foreign loans. On the contrary, we favour increasing both our exports and our loans.—"*Business without a Buyer,*" *P. 147.*

Nevertheless, they admit:

The resulting permanent excess of exports over imports, far from being a gain to this country as a whole, is *a loss of real wealth.*—"*Business without a Buyer,*" *P. 137.*

The export of capital, involving as it does a sacrifice of wealth—at least for the time being—is claimed to be an indication of great wealth in a country.

The increasing wealth of countries like England, France, Germany, Holland, Belgium and Switzerland, toward the close of the nineteenth century led to an ever-growing tendency to invest abroad.—*A. Emil Davies,* "*Investments Abroad,*" *P. 10.*

The export of capital from Great Britain commenced after the Napoleonic Wars.

Soon after 1815 the internationalization of the investment markets began to make rapid progress. English investors burnt their fingers rather severely with loans to rickety foreign governments in South America and elsewhere. But when railway development began, the growing accumulations of industrial and mercantile profits found an outlet, which had the merit of being economic rather than political.—*R. G. Hawtrey*, "*The Economic Problem*," *P. 281.*

By a remarkable coincidence the condition of the masses of the people in Great Britain after the Battle of Waterloo was dreadful in the extreme, that is to say, they lacked bread, meat, clothes, housing and all those things that could have been provided them in adequate quantities only by the largest possible imports of foodstuffs and raw materials.

Had the masses of the people of Great Britain been told between 1815 and 1830 that the goods that they were producing for export were not giving rise to equivalent imports of foodstuffs and raw materials, but were being left in part in foreign countries for the supposed benefit of posterity, they would have answered such a declaration not with boos but with brickbats. It was one of the most disturbed periods of British history. The misery of the masses of the people threatened the country with revolution. The menace of revolution in Great Britain after the Napoleonic wars would have been less if there had been larger imports of foodstuffs and raw materials.

The valuable production, or its equivalent in foodstuffs and raw materials, of which the people were thus deprived, moreover, was almost entirely lost:

Between the years 1818 and 1830, and particularly in 1824 and 1825, the first big flight of foreign loans was issued in London, some £40,000,000 (say $200,000,000). . . .

The London Stock Exchange records show that out of 26 foreign loans floated during the period 1818–1832, only 10 continued to pay their interest beyond 1836, and of the 10 survivors, some defaulted later. Among these were several South American republics whose governments had been recognized by the British Government.—*A. Emil Davies*, "*Investments Abroad*," *Pp. 9–10.*

Now consider the condition of the people of Great Britain after exports of capital during one hundred years. Mr. Hartley Withers writes:

Our output of goods is still not nearly great enough, being estimated before the war at about £42 per head of the population. Even if it were equally distributed, £42 worth of goods and services would not, even at pre-war prices, ensure a really high standard of comfort for the population as a whole.—"*The Case for Capitalism*," *P. 120.*

Speaking at a public meeting at Bangor on September 21, 1927, Mr. Lloyd George, very rightly deriding the optimistic statements on the economic situation that were then being made by members of the Government, said:

We are already in the seventh year of unexampled depression and unemployment. The army of workless numbers today over a million.

In 1913 you had 350,000 in receipt of outdoor relief; today the number of those who have to resort to the Poor Law to save themselves from starvation is over one million.

You must not forget there are many who receive no unemployment pay, nor poor relief, but who are struggling against penury with the help of friends and kinsmen.

There is another fact in this connexion which you must bear in mind. Had it not been that the hours of labour are shorter by 10 per cent. than they were before the war, and that many scores of young men who were at work in 1914 are now crippled pensioners, the numbers of the unemployed would be well over a million and a half.—"*Manchester Guardian.*"

The following description of conditions is not open to the criticism of party bias:

The latest returns show that even in normal times the average of the pauper population is about 1,200,000 and shows no signs of diminishing. The bare figure is alarming enough, and its implications make it more alarming still.

It is clear that the vast development of the "social services" during the present century has so far had little chance of making a permanent impression upon the dimensions of pauperism. Unemployment Insurance, National Health Insurance, Workmen's Compensation, Old-Age Pensions, Widows' and Orphans' Pensions, War Pensions—all these were confidently expected to lift great masses of the population out of the slough of destitution.

They have unquestionably done so. Figures are available showing that the Widows' and Orphans' Pensions Act alone relieved 88,000 persons from the necessity of seeking relief during the first year of its operation. Yet, in spite of the institution of all these alternative forms of relief, *the destitute residue tends to increase in numbers rather than diminish.—Leading article in "The Times," October 3, 1927.*

The growth of pauperism in Great Britain has been so considerable that Mr. Harold Cox and other writers have argued that the pauper vote is a menace to democracy in Great Britain. Mr. Harold Cox writes:

How serious the growth of pauperism has become may be gathered from the figures in a recently published return of the Ministry of Health.

At present one person in every forty-one of the population is a pauper in receipt of outdoor relief.

The cost of Poor-Law relief in England and Wales, which was £15,000,000 in 1913–14, is estimated for the present year at over £39,000,000.—"*The Sunday Times,*" *February 19, 1928.*

It is not, however, only among the one and a half million unemployed and the one and a half million paupers that there is poverty. The majority of the working classes are only one degree removed from the state of poverty of the unemployed. One in every seven families in the whole country is below the poverty line, that is to say, one in every seven families lacks the essential minimum of subsistence.

The vast majority of the working classes are unable to obtain bread, meat, milk, butter and the other necessaries of life in the minimum quantities required for the maintenance of health and strength. That was first proved by the investigations of Charles Booth and has, since, been confirmed by the investigations of Mr. Seebohm Rowntree and Professor Bowley. Three million people are enduring the most appalling housing conditions, and millions more are living in tenements only a little less unsuitable for human beings.

The following is a comment upon the researches of Booth, Rowntree and Bowley:

What all this work does illustrate in the most painful fashion is the narrowness of life which the present level of wages imposes upon the wage-earning part of the population; and they constitute, as the earlier chapters have shown, the greater part of the population.

Fully to appreciate how little even an income on the human needs standard provides, the reader must turn to Mr. Rowntree's works. It is a depressing fact that, in spite of all the scientific inventions which are now used to increase the productivity of human handiwork, the problem of widespread poverty should still be with us.

A long-forgotten political controversy once raged round the phrase, "Twelve millions on the verge of poverty!" The phrase-maker presumably had in mind the earlier of the investigations we have been discussing. He was apparently thinking of the 10 per cent. who could not, and the 15 to 20 per cent. who did not, reach the relatively poor standard of living defined by Mr. Rowntree.

Since the war, certainly so far as those who cannot reach the standard are concerned, the position shows some improvement. But even these investigations do not tell the whole of the story, because they do not take into account those who lack means of support and are housed in institutions. Though these persons may be living at or above Mr. Rowntree's standard, they must be numbered among the poor.—*A. M. Carr-Saunders and D. Caradog Jones, "Social Structure of England and Wales," Pp. 190–91.*

The "human needs" standard adopted by Mr. Rowntree is thus described by the same writers:

It might be said to provide the bare essentials of a civilized life for a family of five. Neither Mr. Rowntree, nor any one else with a proper sense of human requirements, regards it as in any way a sufficient income.

He says, in fact, referring to the dietary part of his standard, that he is not seeking to provide one that he considers desirable, but one below which no class of workers should ever be forced to live.

The meaning of this remark will be plain to the reader who studies closely what the standard provides. Any one unacquainted with Mr. Rowntree's book will be astonished to discover how narrow a margin is allowed over and above the absolute essentials of existence.—"*Social Structure of England and Wales," P. 188.*

The situation of the unemployed in Great Britain is identical with that of a large city that has withstood a long siege. For eight years the unemployed and their dependents have maintained existence upon the scantiest supplies of food and clothing and have endured the most atrocious housing conditions. There can be no question, therefore, that what is most necessary to them is the largest possible imports of foodstuffs for consumption and of raw materials for conversion into clothes, shoes and other articles and for use in the building of houses.

Nevertheless, under the capitalist system, whether Great Britain imposes high tariffs upon imports of goods or not, the export of goods produced by the unemployed in Great Britain would not give rise to equivalent imports of foodstuffs and raw materials.

The prominence given in the Press to the shortage of food, clothes, shoes and housing in Durham county during the visit paid to that "derelict area" by his Royal Highness the Prince of Wales was promptly followed by the announcement—over which the whole country, according to capitalist doctrine, ought heartily to rejoice—that in 1928 Great Britain had imported £149 millions' worth less of goods than Great Britain had the means to pay for. The following is the explanation of the surplus:

> The more favourable merchandise balance in 1928 was due to the combined effect of a decrease of nearly 3 per cent. in the volume of imports, an increase of nearly 2½ per cent. in British exports, and a decrease of nearly 2½ per cent. in re-exports of imported goods.—"*The Board of Trade Journal*," *February 28, 1929, P. 277.*

During the World War of 1914–18 the small neutral states of Europe ventured upon the export of capital, and Professor Gustav Cassel observed that development in his own country, Sweden. He writes:

> The productive forces of the country were thereby directed to the export industries to a disproportionate degree—that is to say, were withdrawn from those industries which worked for the immediate supplying of the nation's needs.
>
> By that means the regular supplies of the nation fell off. In Sweden it is particularly remarkable how building enterprise was made to give way to industrial expansion for export purposes to

such an extent that every kind of house production——except in connection with this expansion——was almost completely stopped.

In like manner all the timber which could possibly be raised was utilized on such a vast scale for export purposes——as fuel for the manufacture of pig-iron, pulp, pit-props, etc.——that the people in Sweden had to freeze.—"*Money and Foreign Exchange after 1914,*" *Pp. 17–18.*

Great Britain has exported capital upon a larger scale than any other country, and it is, surely, no mere coincidence that there is no country in Europe where the masses of the people are enduring worse housing conditions. " Every kind of house production " has been neglected in Great Britain during the past hundred years, exactly as " every kind of house production " was neglected in Sweden while the export of capital was proceeding from Sweden. When one finds men, women and children shivering from cold in the East End of London, it might be useful to recall that that was also the experience of the people of Sweden during the era of exports of capital and " prosperity " !

In a speech delivered by Mr. Arthur Michael Samuel, Parliamentary Secretary to the Treasury, on October 14, 1927, he apologized for the smallness of the anticipated trade balance of less than £100 millions for that year by explaining that there had been large imports of materials into the country for the building of houses. To quote the report of his speech in *The Times :*

We were investing part of our foreign trade balance in houses at home, instead of leaving it overseas for investment.

That is an admission of the fact, that the annual favourable balance of trade of Great Britain represents the extent to which goods needed to supply the wants of the masses of the people have been annually kept out of Great Britain.

The housing shortage in Great Britain constitutes one of the gravest indictments of the present economic system, and, as Mr. Samuel has so ingenuously admitted, the rectification of the shortage is impossible *without* *reducing the excess of exports over imports* or the favourable balance of trade by increasing imports. There is no stretch of reasoning in asserting that the enormous favourable balance of trade in each of the years before the World War of 1914–18 was achieved by starving the country of imports of building material.

Sir Henry Page Croft, speaking in the House of Commons on July 25, 1927, said:

> An enormous number of foreign tiles is being used in the building of subsidised houses.—*Parliamentary Debates, House of Commons, Volume 209, Column 988.*

Speaking at a drawing-room meeting of the Kensington Housing Trust, Limited, on March 13, 1928, Mr. Lloyd George said:

> This morning I was taken by some friends to see some of the slums. What I saw really beggars description—I could not trust myself to describe it to you. No statistics of numbers in a house can give you any notion of the conditions under which human beings, our own flesh and blood, have to live.
>
> I started with my friend from a street with a population of 20 to the acre, and in a few minutes I was in a street where there were 400 to the acre. The rents charged here for squalor and fetters are higher per cubic foot than those charged for ease and comfort.
>
> I wonder whether we realize what this means for the future. There is a Bolshevist munition factory in Kensington. I saw it. These facts are a peril to society.—"*The Times.*"

Building materials, it need hardly be pointed out, are not the only goods the imports of which into Great Britain and other European countries are less than what is necessary to provide the masses of the people with the most elementary conditions of civilized life.

Without the largest possible imports of foodstuffs and raw materials the condition of the masses of the people—whether they be employed or not—can not, by any means, be improved. That is fundamental. No one dare challenge or attempt to qualify that statement. The situation of the masses of the British people, as portrayed by Mr. Lloyd George, can not be alleviated by the Liberal Party (if the Liberal Party were returned to political power), so long as the attainment of a large favourable balance of trade, or an excess of exports over imports, is, as declared in *Britain's Industrial Future*, an object of the economic policy of the Liberal Party. The export of capital from Great Britain robs the masses of the people of the goods of which they stand in the most desperate need.

Two facts must always be borne in mind in any consideration of the export of goods on credit or the export of capital. The first is that the welfare of the people is entirely dependent upon the quantity of goods produced in the country and upon the quantity of goods imported into the country. Whether there be employment or not for all the people in the country is an entirely subordinate question, because even the highest wages will buy no bread unless there be enough flour available in the country. The second is, that by the importation of goods to the full amount of the exports, no reduction takes place in the exports.

The issue raised by the export of capital is whether the goods given on credit should not, instead, be given in exchange for imports of foodstuffs, raw materials, or other goods badly needed by the masses of the people.

CHAPTER IX

THE CASE FOR THE EXPORT OF GOODS ON CREDIT

An Examination from the Standpoint of the Interests of the Exporting Country

THE export of goods on credit from Great Britain is explained on the following grounds:

Firstly, that the country is so poor in natural resources that it is unable to support the present dense population, and,

Secondly, that the subsistence of so dense a population is impossible except with the aid of an income in the form of imports of foodstuffs and raw materials in receipt of the interest on the exported capital.

However poor Great Britain might be in natural resources and however dense might be its population, those circumstances can not explain the export of goods on credit from the country. The investments of British capital in oversea lands, "its heritage from former "generations," as the investments of British capital in oversea lands were described by *The Times* in its issue of August 26, 1927, is a flat contradiction of the hypothesis, that the natural resources of Great Britain are insufficient for the maintenance of her population, because the export of goods on credit implies that the people of Great Britain have been able, during the past hundred years, to spare some part of their annual production for the benefit of other peoples. That part of the annual production of Great Britain would not have been lent to other countries unless the total production of Great Britain that was directly consumed or exchanged for the production of other countries exceeded the wants of the people of Great Britain, so far as the people of Great Britain were prepared or allowed to satisfy those wants. Mr. R. G. Hawtrey writes:

> In so far as exports have formerly represented exports of capital, they can be cut short without any corresponding diminution of imports.—"*The Economic Problem*," *Pp. 279–80.*

The vast exports of goods on credit during the past hundred years shows conclusively that the people of Great Britain produced a great deal more in each year than they chose to consume themselves or exchange for the production of other countries, and the argument that Great Britain is unable to support her population out of her own resources, is, therefore, entirely untenable and utterly absurd.

The Rt. Hon. Reginald McKenna, Chairman of the Midland Bank, has described the export of capital from Great Britain as follows:

> For over two centuries English capital has been lent to other countries. Year by year England produced *more than she either consumed herself or could exchange for the products of other nations*, and she could not obtain a market for the surplus unless she gave the purchaser a long credit.
>
> Foreign loans and foreign issues of all kinds were taken up in England and the proceeds were spent in paying for the surplus production. British factories and workshops were kept in good employment, *but it was a condition of their prosperity that a part of their output should be disposed of in this way.—Address before the forty-eighth annual convention of the American Bankers' Association, New York, October 5, 1922.*

Those who refer to Great Britain as a country that is unable to support its own population can not be aware of the absurdity of the argument. Every community lives out of its own production, consuming the larger part directly and exchanging the balance for the production of other countries. Since the Napoleonic Wars Great Britain has produced more than has been directly or indirectly used to satisfy the requirements of its people, so far as its people have chosen to satisfy their requirements. While the total exports exceed the total imports, Great Britain must be adjudged a country with a potential capacity either to improve the standard of living of its population or to support an increased population.

The facts of the basis upon which the foreign trade of Great Britain has been carried on during the past hundred years has been stated with astounding ingenuousness by Sir George Paish. He writes:

> They [the British people] discovered that they could not sell their goods abroad without giving credit, and they consequently created a system which enabled them to pay cash for what they bought, and to grant credit facilities for what they sold.—"*The Road to Prosperity*," *P. 18.*

It is truly amazing that economists and writers should be found who could state such facts as Sir George Paish has stated in *The Road to Prosperity* without apparently realizing the plain meaning of their own words. Apart from the absurdity of a country or an individual merchant or trader doing business upon the basis upon which Great Britain has traded for a hundred years, the fact that Great Britain was able to pay in goods and services for all its imports of goods and services and, in addition, give considerable amounts of goods and services on credit to other countries during a hundred years, shows as definitely and conclusively as any fact might be brought within the range of human understanding that during the past hundred years—except between 1914 and 1918—Great Britain possessed more than adequate means in its direct exports of goods and services to pay not only for all the foodstuffs and raw materials that Great Britain actually imported but also for a great deal more.

It is by obtaining opportunities for giving goods on credit to other countries—not by importing foodstuffs, raw materials and other goods that would feed, clothe and in other ways minister to the needs of the people of Great Britain—that Sir George Paish proposes to put the people of Great Britain on the road to prosperity!

In *The Road to Prosperity* (P. 32) Sir George Paish describes Great Britain as a country that "cannot become "self-contained." It is impossible to understand what exactly is meant by the term, self-contained or self-sufficient, because, in the first place, no country in the world —not even a country so large and so wealthy in natural resources as the United States of America—is self-sufficient, and, in the second place, it does not make the slightest difference to a country whether it is self-sufficient or not, unless it be in a state of war with the whole of the rest of the world.

The term, self-sufficiency, slipped into use during the World War of 1914–18, when, in order to counter the attacks upon supplies made by enemy forces, every belligerent carefully examined the extent of its self-sufficiency. People are continuing to use the term without realising that it has no applicability at all to the peace economy of a country. So long as the exports of a country equal its imports it is self-sufficient in the sense that it can either produce or import all that it needs.

How considerable has been the amount of production that Great Britain has lent to other countries might be judged from the fact that over £6,000 millions were acknowledged as owing to Great Britain in 1914 and that, in addition, perhaps at least a third as much more has been lost or repudiated.

In a speech that Mr. Lloyd George, as Chancellor of the Exchequer, delivered in the House of Commons on November 27, 1914, he estimated the total capital wealth of Great Britain at £13,000 millions, so that the investments of British capital in foreign lands amounted in 1914 to very nearly half of the total capital wealth of Great Britain, including in that description, in the words of Mr. Lloyd George, "collieries, land, factories, and "harbours, all the property created and developed by the "trade and skill and energy of our people." It is quite ridiculous to argue that a country that has lent goods that might have been exchanged for foodstuffs and raw materials on such a large scale to other countries does not possess adequate resources for the support of its population.

As already observed, the upholders of the export of capital from Great Britain lay stress upon the receipt of interest in the form of imports of foodstuffs and raw materials into Great Britain. Whether Great Britain now receives or not large quantities of foodstuffs and raw materials in payment of interest on its exports of capital, the original exports of capital could not have been made in the first half of the nineteenth century unless, to use Mr. McKenna's words, Great Britain "produced "more than she either consumed herself or could exchange "for the products of other nations." Moreover, the exports of capital made during the first half of the nineteenth century were completely lost, and thus for a period of at least twenty-five years, without the aid of an income in the form of interest on exports of capital, Great Britain had year after year continued to produce "more than she "either consumed herself or could exchange for the "products of other nations."

Most people, apparently, do not always remember that Great Britain is not the most densely populated country in Europe. Even England, the most densely populated part of Great Britain, is less densely populated than Belgium, and 84 per cent. of the food of the population of Belgium is produced at home.

If the natural resources of Great Britain are, in fact, poor, surely full and intensive use of those slender resources are imperative. The exact contrary is to be seen. The soil, which is the most valuable of the natural resources of a country, is more neglected in Great Britain than in any other country with any claim to civilization. Great Britain is very largely dependent upon imports of foodstuffs, not because the country is small or the soil and climate are unsuitable for the production of foodstuffs, but because the cultivation of the soil, as a result of certain undetected artificial causes, is very largely neglected.

At a meeting of the Council of the Central and Associated Chambers of Agriculture held on March 6, 1928, in London, Mr. J. O. Steed, a member of the Business Committee, said:

> The country did not realise that there was any connection between home agriculture and the food supply. *This country was trying an experiment unique in the world's history. It was trying to live independently of its natural resources. . . .*
>
> It was hardly an exaggeration to say that the rural areas formed no part of England.—*Report in "The Times."*

In a leading article in *The Times* the following statement was made:

> Hundreds of thousands of acres of what might be valuable and productive land, both above and below high-tide mark, are left derelict *for want of the labour and energy* necessary to reclaim them from the dominion of river and sea and to bring them under cultivation.—*Quoted in "Britain's Industrial Future," P. 334.*

"Want of labour" in a country with over a million unemployed, some of whom were sent in 1928 to Canada for a few weeks' work as harvesters!

In a speech at Leicester on September 22, 1927, Sir Herbert Samuel referred to the rapid decline of agriculture in Great Britain since the World War of 1914–18.

> He said that compared with before the War there was a total of 2,000 square miles, equal to a belt of country ten miles broad all the way from London to York, that had passed out of cultivation. —"*Manchester Guardian,*" *September 23, 1927.*

In contrast to the neglect of fertile soil in Great Britain is the intensive use of natural resources on the other side of the North Sea. The Dutch, with characteristic practicality, are engaged in draining the Zuyder Zee.

Farming in Great Britain, judging by results, is inferior to farming in other parts of Europe. It is perfectly clear to the least observant investigator that the cause is neither the soil, the climate, nor lack of skill in the farmer. The farmer is, for various reasons that can not be examined here, unable to throw all his resources and energies into production.

How serious is the backwardness of agricultural production in Great Britain might be judged by a contrast that has been drawn between the agricultural production of Denmark and that of England and Wales by Mr.

Lange, the Warden of the Smallholders' School, Odense (Denmark), who examined agricultural conditions in Great Britain. He wrote:

> From land of far inferior quality and not much above one quarter in extent as compared with England and Wales (43 against 151) we are able to *export* £56,000,000 worth of agricultural products, while the total production of English agriculture is only £225,000,000.—*Britain's Industrial Future, P. 323.*

If all suitable land in Great Britain were brought under cultivation and if the production per acre were raised to the high level of Belgium, Holland or Denmark, the production of food in Great Britain would easily be doubled, and the present standard of living would be maintainable, although exports of manufactured goods might be reduced by £225 millions. The productive power of the country could, to that extent, be devoted to supplying the many obvious wants of the people—such as housing, furniture, clothes and shoes or the £225 millions of production now exported in payment of imports of foodstuffs might be exported against imports of other production from lands overseas. It is generally forgotten that in the nineteenth century the agricultural production of Great Britain supported a larger number of people than it does today.

No one can deny that, even if there were no increase of imports of foodstuffs, raw materials and other goods during the next twenty years, but if all suitable land were brought under proper cultivation, Great Britain would be able to support a much larger population in a state of greater comfort than today. It is, then, quite absurd to argue that, situated as the country is today, it is unable to support its population.

If agriculture is not "prosperous" in Great Britain, it does not arise from an absence of mouths to feed. The mysterious decline of agriculture in the country is not due to inherent natural circumstances, because much of the land now uncultivated was highly productive in the nineteenth century and even during the first decade of the present century.

Moreover, if Great Britain's mineral resources are as poor as they are generally alleged to be, conservation is imperative. By the neglect of agricultural production, on the contrary, the exhaustion of the mineral resources of Great Britain is expedited. The results of the present economic policy of Great Britain are clearly seen in the coal industry, where every increase in the depth of the mines adds to the cost of production. It should be the policy of the people of Great Britain to increase the production of foodstuffs and raw materials in order to avoid as far as possible the export of coal in exchange for foodstuffs and raw materials. In the same way, the deposits of iron ore in the country have been mined and converted into steel products for export in exchange for foodstuffs that might just as well have been produced in the country.

By the practical exhaustion of the iron mines the country has been forced into a state of dependence upon imports of iron ore. That the more easily get-at-able deposits of coal and iron should have been drawn upon during the past hundred years to pay for imports of foodstuffs that might just as well have been produced in the country is a sufficient condemnation of the economic system. That the exhaustion of the country's mineral wealth should have been expedited in order that thousands of millions of pounds sterling of production might be thrown away in Russia and South America is only an illustration of the old saying, that truth is often stranger than fiction.

The conception of Great Britain as a country struggling hard to ensure imports of foodstuffs and raw materials is based upon fictions that are completely refuted by the trade returns and by the export of goods on credit. The goods that Great Britain exports today pay for foodstuffs and raw materials that might, to a large extent, be just as well and far more cheaply produced at home or pay for manufactures and articles of luxury that might either be entirely dispensed with or be easily and cheaply produced at home.

The export trade of Great Britain has already been pushed so far that, under the existing economic system, which does not ensure an increase in the consumption of imports of goods equivalent to an increase in exports, the exports of Great Britain can expand only in the event of a further decline of agriculture in the country. That is precisely why exports are being given on credit, and, as pointed out in *Britain's Industrial Future* (the economic programme of the Liberal Party of Great Britain) an improvement in agriculture is calculated to lead to a still further increase in the exports of goods on credit. It is amazing that the authors of *Britain's Industrial Future* did not recognize that, unless additional exports were given on credit, an expansion of exports from Great Britain must involve a decline of agricultural production in Great Britain, because, as proved by experience, an increase of exports does not give rise to an increase in the consumption of imported foodstuffs and raw materials exactly to balance the increase in exports.

Now, the pretext that the export of goods on credit by Great Britain is for the purpose of bringing about increases in the imports of foodstuffs and raw materials (because of the poverty of natural resources) or have that effect is completely refuted by the fact, that exports of goods on credit have been made or are being made by countries, that, by no stretch of the imagination, can be conceived to entertain such a motive or desire such a development.

During the World War of 1914–1918 Germany was almost completely cut off from the rest of the world. Nevertheless, Germany succeeded in supporting its population—even though millions of the best agriculturists and industrial workers were under arms—and in meeting the enormous demands of a great war out of the agricultural and industrial resources of the country. Despite the hardships the German people endured and despite the fact that they eventually succumbed as much to the Naval Blockade as to the blows rained upon them by the Allied and Associated Armies, under the command of Marshal Foch—unquestionably, one of the greatest generals of all times—that achievement finally disposes of the suggestion that the natural resources of Germany are insufficient, under conditions of peace, to support her population in a high degree of comfort. No one can pretend that the exports of capital that were made by Germany before 1914 were prompted by such considerations as are supposed to have influenced the exports of capital from Great Britain before 1914.

Before the World War of 1914–18, France stood second in the list of countries that exported capital. That country is one of the largest and richest in natural resources in Europe. Vast areas of highly fertile land lie uncultivated for want of population. Since the beginning of the present century the expansion in the native population of France has been very small, and during the past few years the native population of France has not increased at all. There is no country in Europe, except Russia, where the pressure on the land is less. It can not, therefore, be pretended that the exports of capital from France were made in order to ensure an income in imports of foodstuffs and raw materials for the support of a larger population.

The evidence supplied by the United States of America is absolutely decisive. The export of goods on credit from the United States of America has been explained by Mr. Herbert Hoover, the President, as follows:

> I believe that we have today an equipment and a skill in production that yield us a surplus of commodities for export beyond any compensation we can usefully take by way of imported commodities. . .
>
> To me there is only one remedy and that is by the systematic, permanent investment of our surplus production in reproductive works abroad. *We thus reduce the return we must receive* to a return of interest and profit.—"*New Republic,*" *December 29, 1920.*

Mr. Hoover's justification of the export of capital from the United States of America is quoted by Messrs. Foster and Catchings, who comment on it as follows:

> Mr. Hoover's conclusion concerning the necessity of export-

business world and most of the economic world seem to agree, that there is no possible way of giving our own people enough money to buy what they can readily produce.

"To me," he says, "there is only one remedy, and that is by "the systematic, permanent investment of our surplus production "in reproductive works abroad." That is to say, our money and profit economy so obstructs the flow of goods to our own people that we must regularly send abroad a substantial part of our output; and, since the income of consumers abroad is also insufficient to buy our surplus, and never can become sufficient, we must permanently take our pay in foreign capital goods—in factories, mines, power plants, and railroads.

What does this mean? It seems to mean that if we work very hard, we can send more wealth abroad and thus acquire more capital abroad, and thus possibly receive more interest and dividends from abroad, wherewith to acquire still more capital abroad, and so on, generation after generation, without finding any way whereby we, or our children or our children's children can ever benefit greatly by our increased productivity.

According to this theory, our own standard of living must remain the same as though we had never produced all this "surplus" wealth.

The complacency with which this theory is accepted is amazing, for it amounts to an admission of our main contention concerning the inherent flaw in the established economic system. It is, in effect, an indictment of the prevailing methods of distributing the products of industry.—"*Profits,*" *Pp. 405–6.*

Mr. Henry Ford controls the largest productive organization under the absolute will of a single man. He recognizes that the prosperity of a country depends entirely upon the amount of production. But a large part of the production of the United States of America, since 1914—the year in which, according to Mr. Ford himself, his business became a great production unit—has been given to foreign countries on credit. The amount thus sent from the United States of America to other countries exceeds by many times the total production of the Ford factories in the United States of America since 1914, and if all that production is "gone, lost, "sunk for ever," it is as much as if all the production of the Ford factories had never come into existence. One wonders whether Mr. Ford ever looked at the export of capital from the United States of America from that standpoint. He says nothing on the subject in his two books, the contents of which, however, carry the implication that he is a believer in the export of goods on credit from one country to another. In fact, Mr. Ford has now become a direct exporter of capital:

The Soviet mission, which has been in the United States for some time negotiating for the construction of a motor-car plant in Moscow capable of manufacturing 100,000 cars annually, has concluded arrangements with the Ford firm.

A new Ford company for Russia will be formed with the American Ford Company holding 40 per cent. of the stock and the Soviet Government, or its agents, holding 60 per cent.

The new plant in Moscow is expected to be producing actively within two years.

The negotiations with Mr. Ford were not hampered by any need of compromise on the part of the Soviet regarding confiscation of pre-War property, as Mr. Ford had no interests in Russia at that time.—"*The Daily Mail*," *Continental Edition, January 19, 1929.*

Great Britain, France, Holland and Belgium, which export goods on credit to other countries, are supposed annually to receive from the debtor countries that have not repudiated the loans they have received or have not openly failed to make payments of interest, large quantities of foodstuffs and raw materials in the form of interest on the exports of capital already made. If that is the position, one of the three following alternatives must arise:

First, if the present income from investments is less than the present annual exports of capital, the peoples of Europe do not need the income for their maintenance.

Second, if the present income from investments is equal to the present exports of capital, the peoples of Europe are quite independent of the income from investments.

Third, if the present income from investments is greater than the present exports of capital, the income is too large, the original exports of capital were excessive, and the further export of goods on credit is unnecessary and wasteful.

Those are the only possible alternatives, and whatever may be the position, so long as the export of capital continues, it must be conceded, firstly, that the industrial countries of Europe do not, and can not possibly, derive any advantage from their income from investments in other lands, and secondly, that the present exports of capital from the industrial countries of Europe constitute a definite and entirely uncompensated loss of wealth to the industrial countries of Europe. Whether the industrial countries of Europe do, in fact, receive an income from their investments of capital in other lands or not is examined exhaustively in subsequent chapters.

CHAPTER X

HOW THE EXPORT SURPLUS CREATES EMPLOYMENT

The Phenomenon of the Cyclical "Depressions of Trade"

EVERY kind of absurd excuse has been brought forward in extenuation of the export surplus of the industrial countries of Europe. The chief pretext hitherto has been that the export surplus arises from the lack of buying-power in the colonial world. After the demonstration in this work that the buying power of the colonial world is no less and no more than the amount of the imports of colonial products into the industrial countries of Europe, it is to be hoped that no one will be found with such insensibility to facts and to reason as to declare that the export surplus of the industrial countries of Europe is caused by any other factor than the internal economy of the industrial countries of Europe. The lack of buying-power of the colonial world in the industrial countries of Europe is a creation of the industrial countries of Europe themselves.

The export surplus—if it be maintainable—no doubt creates employment, but employment is a means to an end, not an end in itself. The term, employment, is associated with wages, and wages are associated with the means of subsistence. There is, accordingly, no more sinister argument than that employment is created by an export surplus. The argument, that an export surplus is necessary to the maintenance of employment has impressed even the Socialist or Labour party in Great Britain.

If people are employed in producing goods for export to other countries, which, in the words of Professor Maynard Keynes, "bring in no immediate return," the production of those goods can not add to the amount of the foodstuffs and other goods that are needed by the working classes. Nevertheless, Professor Keynes wrote in 1925:

> To pay for unemployment by changing over from being a lending country to being a borrowing country is admittedly a disastrous course.—" *The Economic Consequences of Mr. Churchill,*" *P. 16.*

If Great Britain paid for unemployment by borrowing, Great Britain would be supplying the unemployed with food, clothes and other necessaries of life that had been borrowed or received on credit from other countries. Professor Keynes, quite rightly, considers that " a disastrous course." What is it, however, that he advocates? He advocates that Great Britain should maintain the unemployed by lending to other countries the goods the unemployed might manufacture.

If the goods produced by the unemployed are to be lent to other countries, there could be no increase in the quantities of food, clothes and other necessaries of life in Great Britain either as a result of the labour of the unemployed or as a result of any reaction to their labour. Professor Keynes dare not deny that. The labour of the unemployed can increase the quantities of food and other necessaries of life only if the labour of the unemployed directly produces food and the other necessaries of life or if the labour of the unemployed produces goods that are exchanged for food and the other necessaries of life. But if the goods produced by the labour of the unemployed is exchanged for other goods, there could be no lending.

It is because the industrial countries of Europe have striven to produce goods for export on credit, and not to produce goods for export in exchange for foodstuffs, raw materials and other goods, that the discovery has been made that, apparently, the industrial countries of Europe are unable to support their populations. The industrial countries of Europe have endeavoured to maintain their populations not upon the maximum amount of goods that they produce or its equivalent in the goods of other countries but upon an amount of goods that is less than the amount of the goods the industrial countries of Europe produce or its equivalent in the goods of other countries.

In arguing that unemployment must be paid for—that is, the means of subsistence of the unemployed must be obtained—by lending goods to other countries (instead of exchanging the goods that would be manufactured by the unemployed for foodstuffs and other necessaries of life) Professor Maynard Keynes was not airing a personal opinion or fad. On the contrary, he was stating—perhaps with unusual ingenuousness—a fundamental fact of the economy of a country under the capitalist system. It is upon the export of capital, upon the lending of goods, that the provision of employment for the masses of the peoples in the industrial countries of Europe is being sought—in vain.

Now, as pointed out at the beginning of this chapter, it is practicable to create a certain amount of employment in Great Britain by the production of goods for export on credit to other countries. It is, therefore, necessary to explain how it is that, under the capitalist system, hundreds of thousands of unemployed might be provided with employment upon wages (giving them command of larger quantities of food and other necessaries of life than they obtain while "on the dole") when, as a matter of fact, their labour neither creates nor brings into the country additional quantities of those foodstuffs and necessaries of life.

The total amount of the food, clothes, shoes and other necessaries of life that the people in a country consume comes out of the production of the country—either directly out of the production or indirectly by the exchange of the production (by means of foreign trade) for the production of other countries. Sir Josiah Stamp pointed that out in a speech he delivered to the Birmingham Chamber of Commerce on October 6, 1927.

Sir Josiah Stamp said the standard of living in the last resort was the quotient, where the divisor was the number of people, and what had to be divided was the total amount they produced.—*The Birmingham Chamber of Commerce Journal, November 15, 1927, P. 863.*

When workmen are employed in the production of goods for export on credit, there is no increase in the quantities of goods the working classes consume. The wages or money paid to the workers engaged in producing goods for export on credit give the workers engaged in producing goods for export on credit, however, the power to compete for the goods that the working classes consume with the workers in the country, who produce the goods that the working classes consume (or goods that are exported in exchange for goods that the working classes consume).

The law of supply and demand comes into operation. The increased demand for the same quantities of goods consumed by working-class people leads to a rise in prices. The rise in prices reduces the power of each one of all the workers previously in employment to buy as much as each one of them did before. As a result, the food and necessaries of life that go into the homes of the workers employed on making goods for export on credit are food and necessaries of life that have been kept out—by the rise in prices—from the homes of the other workers. Neither Professor Keynes nor any one else dare contradict what has been written in this paragraph and in the preceding paragraph.

With every increase in the number of workers employed in the production of goods on credit, there takes place an increase in the price level. The steady rise in the price level diminishes the amount of food, clothes and the other necessaries of life that the workers—whether they be employed upon goods to be exchanged for other goods or goods to be exported on credit to other countries—buy, and thus dissatisfaction is caused among the workers. The dissatisfaction expresses itself in strikes for higher wages. When, as a result of the rise in the price level and of the consequent strikes, wages are raised, the cost of production is raised, and it becomes easier for countries that had not been exporting goods on credit so largely and are not suffering from a rise in the price level to the same extent to underquote British manufacturers. Thus, there takes place a decline in the exports from Great Britain and a "depression in trade," accompanied by unemployment.

The fresh unemployment, naturally, leads to a fall in the price level, followed by reductions of wages. The reduction of the costs of production again renders it possible for British manufacturers to compete successfully with the manufacturers of other countries as exporters of goods on credit, and an expansion of exports on credit takes place. As those exports on credit do not give rise to corresponding imports of foodstuffs and the other necessaries of life of the working classes, the price level is again forced up with the consequences described above. Thus, the "trade" of the country follows a regular cycle of "booms" and "depressions."

It will be seen that the trade cycle is caused primarily by the rise in the price level. The price level rises only because the goods manufactured and exported on credit do not give rise to imports of foodstuffs and the other necessaries of life for which the working classes compete with their wages.

A fall in the price level adds to the amount of foodstuffs and other necessaries of life that the wage-earning class buy. In other words, the real wage rises when the price level falls.

The labourer is rich or poor, is well or ill-rewarded, in proportion to the real, not to the nominal price of his labour.—*Adam Smith, "The Wealth of Nations," Book I, Chapter V, (Cannan's Edition, Volume I, P. 35).*

Now, a fall in the price level is brought about by a decline in the export of goods on credit, because a decline of the export of goods on credit throws out of employment the workers engaged in producing goods on credit and reduces the demand for the goods consumed by the working classes. Thus a rise in the real wage coincides with an increase in unemployment.

Sir Josiah Stamp has observed that phenomenon, and in a speech that he delivered to the Birmingham Chamber of Commerce on October 6, 1927, he drew attention to what he described as "an almost sinister connection "between the movement of real wages and the movement "of unemployment."

> They would find that after every fall in price, other things being equal, the real wage went up; at the same time unemployment went up, and the two things were closely connected or correlated.—*The Birmingham Chamber of Commerce Journal, November 15, 1927, P. 863.*

Sir Josiah Stamp's explanation of the phenomenon was that it was inevitable if the amount of production remained stationary. As he explained it,

> If there was no increased production, if the total amount in the bag to be divided had not altered, and a certain number had a higher real wage and were entitled to take more from the bag, a large number would have to go without any at all.

Sir Josiah Stamp gave no explanation of the cause of the fall in the price level, how it happened that "a certain "number had a higher real wage," and his argument is based upon the extraordinary hypothesis, that unemployment had been caused by the fact that "a certain number "had a higher real wage and were entitled to take more "from the bag." That could not cause unemployment, whatever hardship it might impose upon the rest of the working classes. In other words, the fall in the price level could not—by reason of the improvement effected in the real wage—cause unemployment. On the contrary—as Sir Josiah Stamp would himself admit, for the Cunliffe Committee makes the admission—unemployment must cause a fall in the price level and an improvement in the real wage.

The question that Sir Josiah Stamp and his fellow-economists and financiers must explain is why the price level has been steadily falling since 1920, in which year larger quantities of goods were exported on credit than in any other year since the World War of 1914–18.

There are two facts in the economic situation upon which all economists, financiers and other commentators are in entire agreement. The first fact is that "the "depression in trade" since 1920 is unlike "the cyclical "depressions in trade" before the World War of 1914–18. The second fact is that since 1920 there has been a continuing fall in the price level, despite all the efforts made to arrest the fall in the price level.

> It is clear from our monthly index numbers that prices are still falling. Compared with July, 1926, the fall in commodity prices has been from 145·8 to 142·2.
>
> The peak was reached in April 1920, when the index-number was 352·9, but the fall since December, 1921, when it stood at 162·1 has been very slow.—*Leading article in "The Times," August 13, 1927.*

Now, for half a century before the World War of 1914–18, exports of goods on credit from Great Britain, Germany and the other industrial countries of Europe were well maintained, and every economist and financier must admit that the export of goods on credit inevitably raises the price level, and in the half-century before the World War the price level was always rising.

Since the World War of 1914–18 (or more exactly since 1920) there has been, as shown in this work and as every economist and financier would admit, a collapse of the exports of goods on credit from Great Britain and the other industrial countries of Europe, accompanied by a steady fall in the price level. In the absence of an increase in production (and there has been no increase in production in Europe), the fall in the price level—as the economists and financiers must admit—could be caused only by the decline in the export of goods on credit.

The present "depression in trade" in the industrial countries of Europe is not like "the cyclical depressions "in trade" before the World War of 1914–18, because "the cyclical depressions in trade" were caused by variations in the quantities of goods exported on credit, whereas the present "depression" in trade has arisen out of an almost complete collapse of the export of goods on credit from the industrial countries of Europe. The price level—lacking the perennial stimulus that an expansion of the export of goods on credit imparts—accordingly, continues to fall with every increase in production, the contents of Sir Josiah Stamp's "bag."

If the unemployed in Great Britain were employed in producing goods to be consumed in the country or to be exported in exchange for foodstuffs, raw materials and other goods, the price level would continue to fall. If, on the contrary, they are employed on the production of goods on credit, the price level is bound to be forced up.

The decline in prices in Great Britain has sprung—as it could only spring—from the decline in the export of goods on credit or from the increase in the production of goods either directly consumed or exchanged for other goods that are consumed. The increase in unemployment has shown clearly that there has been no increase in production.

The aggregate production until the end of 1924 was very distinctly below 100 compared with before the war.—*Sir Josiah Stamp in his speech to the Birmingham Chamber of Commerce on October 6, 1927, Journal, P. 863.*

The factor that has caused a decline in prices must, therefore, be the almost complete collapse of the production of goods for export on credit.

The expansion of the surplus of exports of goods of the United States of America during the years 1915 and 1919 was attended by a rising price level. Between 1920 and 1922, the surplus of exports of goods of the United States of America declined as follows:

1920	$2,979 millions.
1921	1,822 „
1922	691 „

Professor Cassel commented upon those facts as follows:

> The fall in prices in the United States has thus, in actual fact, failed to benefit exports.—"*Money and Foreign Exchange after 1914,*" *P. 240.*

The truth is that the decline in the export surplus forced down the price level in the United States of America.

There are two kinds of employment that the peoples of the industrial countries of Europe might be given. One is employment that will lead to the production of goods that the peoples of the industrial countries of Europe might themselves directly consume or use, or to the production of goods to be exchanged for foodstuffs, raw materials and other goods of other countries that the peoples of the industrial countries of Europe might consume. The other kind of employment is employment that will merely keep the peoples of the industrial countries of Europe occupied, exactly like the employment that the kings of ancient Egypt provided their enslaved peoples during the era of the construction of the Pyramids.

The production of goods for export on credit will provide employment to the unemployed in the industrial countries of Europe without adding to the quantity of the necessaries of life that is to be divided among the working class. Whatever additional food or other necessaries the unemployed might obtain, as a result of employment upon the production of goods for export on credit, could only come out of the food and the other necessaries of life that the working classes now in employment and now drawing wages live out of.

The instrument of the redistribution of the same quantity of necessaries of life over a larger number of working-class people is a rise in the price level, and a rise in the price level is precisely what is against the interests of the masses of consumers and what is most earnestly desired by the capitalists, the financiers, the bankers, the economists and the politicians, who, under the capitalist system, have no will and no power to give the masses of consumers more food and more of the other necessaries of life—whatever might be their declarations to the contrary.

CHAPTER XI

THE NATURE AND PURPOSE OF CAPITAL

The Misconceptions of the Economists

THE chief reason why the export of goods on credit, the export surplus, is universally accepted as a proper object of foreign trade is that the export surplus is described as "the export of capital." The word, capital, has acquired a mysterious significance, and the false notions that exist about what constitutes capital form the main source of the economic misfortunes of mankind.

There have been innumerable definitions of capital. Professor Irving Fisher writes:

> What Senior wrote seven decades ago is true today: "Capital "has been so variously defined, that it may be doubtful whether it "have any generally received meaning."—"*The Nature of Capital and Income*," *P. 53.*

It is a jibe that capitalist economists hurl at Socialists that the Socialists are not agreed upon what is meant by Socialism. It has not struck the capitalist economists that capitalist economists ought to be agreed upon what is meant by capital, even if they are unable to explain what money is, whether it is exports or imports of goods and services that bring economic welfare to a people or whether it is better to pay than to receive Reparations.

To Professor Irving Fisher must be given the credit of having produced the only accurate and complete definition of what constitutes capital and what constitutes income. He writes:—

> A stock of wealth existing at an instant of time is called capital. A flow of services through a period of time is called income.

Thus, a dwelling-house now existing is capital; the shelter it affords or the bringing-in of a money-rent is its income.

The railways of the country are capital; their services of transportation or the dividends from the sale of that transportation are the income they yield.—"*The Nature of Capital and Income*," *Pp. 52–3.*

Professor Fisher has explained his definition of capital by the aid of a striking illustration.

A full view of capital would be afforded by an instantaneous photograph of wealth.

This would reveal, in addition to the durable wealth, a large amount of goods of rapid consumption. It would disclose, not the annual procession of such goods, but the members of that procession that had not yet been transmuted in form or passed off the stage of existence, however swiftly they might be moving across it.

It would show trainloads of meat, eggs, and milk in transit, cargoes of fish, spices and sugar, as well as the contents of private pantries, ice chests and wine cellars.

Even the supplies on the table of a man bolting his dinner would find a place. So the clothes in one's wardrobe or on one's back, the tobacco in a smoker's pouch or pipe, the oil in the can or lamp, would all be elements in this flash-light picture of capital. —"*The Nature of Capital and Income*," *P. 66.*

In the capitalist economy, capital is not thought of at all in the realities in which it exists. Capital is thought of only in terms of money. For example, the cotton mills in Lancashire are reckoned as so many millions of pounds sterling of capital. When a capitalist starts a factory or a newspaper he speaks of having so many thousands of pounds sterling, of dollars or marks of capital.

Capital has to be reckoned in terms of money only because all goods and services are reckoned or measured in terms of money. Cloth is measured in yards, and sugar, in pounds, but if cloth is to be exchanged for sugar, there must be some common measure applicable to both, especially as there are many varieties of cloth and many varieties of sugar. That common measure has been found in money.

All money is capital, because, as Professor Irving

Fisher has pointed out, all goods constitute capital—even rapidly disappearing food upon a dinner-table—and money represents all goods and services. Money is a means of converting certain goods and services into other goods and services.

Money exists either in paper or in the precious metals, gold and silver. Paper money is very easily produced by means of a printing press. That is why some people can not resist the temptation to forge paper money. The forgery of paper money is rare because by means of the numbers on currency notes and by certain secret marks the banks or governments that issue paper money are able with great ease and complete sureness to distinguish the currency notes they issue from forged currency notes. If all the paper money in the world suddenly disappeared as the result of an atmospheric disturbance, the total amount of capital in the world would remain exactly the same.

Gold coins and silver coins are capital, because they are goods. Even paper money is goods in the sense that a sheet of note paper is goods, but the goods value of paper money is absurdly small. Gold coins and silver coins, gold bars and silver bars are fixed capital, but a form of fixed capital that is of very little practical use. Had gold not been discovered, the peoples of the world would not have failed to progress in civilization. Man existed for thousands of years before the discovery of the existence of radium or of vitamins. It is possible that the earth contains a metal more suitable as money than gold. Mankind is none the worse for the hypothetical failure of the mining engineers.

"Durable wealth" or fixed capital consists of the instruments of production, that is to say, factories, mills, machinery and tools, public utilities like railways and electric power generating plants, lands and houses. Raw materials and the means of subsistence (food, clothes, shoes and the other necessaries and comforts of life) of the directors, managers, staff and workmen and fuel, power, light and various services are generally distinguished as liquid capital or working capital.

Mr. Henry Ford is the richest man in the world and owns more capital, both fixed and liquid, than any other man. He ought to know in what his capital consists. He writes:

> We have to express in dollars what are not dollars at all.
>
> Take the Ford Industries. For accounting and tax purposes they have to be valued in dollars according to recognized modes of procedure. Thus the Ford Industries are supposed to be worth some large sums, and those figures are printed. *Nine out of ten men think that we have that number of dollars somewhere on the premises.*
>
> We have nothing of the kind. We have our power plants, furnaces, lathes, drill presses, coal mines, iron mines, and so on. We have the physical equipment to manufacture automobiles and tractors and some raw material to work with. . . .
>
> Take four furnaces, fifty stamping machines, a conveyor system, a dozen annealing ovens, a pile of coal, elevators, trucks, buildings, iron and wood and sand—the actual physical inventory of a place. You never see that inventory expressed as things. It is always in dollars. There are no dollars there, as dollars.—"*Today and Tomorrow*," *Pp.* 25–6.

Capital must be thought of in the realities in which it exists, not in terms of bits of paper that have passed through a printing press or over a bank counter. Capital, both fixed and liquid, existed before the discovery of the art of writing or of the art of printing, before the invention of money or the discovery of gold or of silver. Capital, both fixed and liquid, is more ancient than the Stone Age. Stones were perhaps the first implements of production, but man possessed capital (as a flashlight photograph would have shown) before man discovered the use of stones. The half-devoured carcase that a lion drags to his lair is the lion's capital. The apple with which Eve tempted Adam in the Garden of Eden was capital——forbidden capital. Money is only a means of measuring, numbering and naming capital, that is, all existing goods.

Mr. Lloyd George, speaking as Chancellor of the Exchequer in the House of Commons on November 27, 1914, described the fixed capital or durable wealth of Great Britain as consisting of " collieries, land, factories, "and harbours—all the property created and developed "by the trade and skill and energy of our people." That was an intelligible and accurate, if a very off-hand and slipshod, description of what constitutes the fixed capital or durable wealth of Great Britain.

The liquid capital of Great Britain consists of coal that has been brought to the surface, iron ore that is ready to go into the melting-pot, timber, various other raw materials, foodstuffs, liquor, tobacco—all the commodities absorbed in the manufacture of other commodities for use, consumption or exchange or that go directly into use or consumption in Great Britain.

Capital can not be created except by sparing or sacrifice. Capital is described as savings in economic literature. The savings of capital are not the pieces of paper——whether called dollars, francs or marks——that one deposits in a bank or the pieces of gold and silver that one collects in a till. Paper money, to use a phrase of Mr. Henry Ford, is no more wealth "than hat checks are hats." The gold and the silver were produced before they entered the till. The gold, the silver and the paper money serve no other purpose than to establish the legal claim of the holders of the gold, the silver or the paper money to goods produced in the country or in other countries——a claim that might not be met.

The only savings that a country makes are savings of goods. There is no other kind of savings. The savings of a country are made by the whole body of consumers, whether the right to the savings is held by a few thousand capitalists or by the masses of the people. The savings that constitute additions to the capital of a country are the savings of the great body of consumers.

There can be no large savings of goods by the capitalist class——a hundred thousand individuals at the most in each of the great industrial countries of Europe and two hundred thousand in the United States of America. There would be very little difference made to the production of Great Britain if the whole of the capitalist class in Great Britain decided to limit their consumption of goods to the minimum. The total amount of the food, clothes, shoes and all the other goods that the whole capitalist class in Great Britain would succeed in avoiding to consume by the severest self-denial would be an insignificant percentage of the total amount of the production of the country. The savings of production that go to the making of fresh capital are the savings of the millions of consumers who form the masses of the people.

Mr. Hartley Withers points out in *International Finances* (*P. 21*) that " capital can only be produced by " work." Nevertheless, he writes:

> At home we owe our factories and our railways and all the marvellous equipment of our power to make things that are wanted, to the quiet, prosaic, and often rather mean and timorous people who have saved money for a rainy day, and put it into industry *instead of into satisfying their immediate wants and cravings for comfort and enjoyment.*
>
> It is equally, perhaps still more, true, that we owe them to the brains and energy of those who have planned and organized the equipment of industry, and the thews and sinews of those who have done the heavy work. But brain and muscle would have been alike powerless if there had not been saving folk who lent them raw material, and provided them with the means of livelihood in the interval between the beginning of an industry and the day when its product is sold and paid for.—"*International Finance*," *Pp. 83–4.*

It is not " the saving folk " who save the raw material for the workers, because " the saving folk " could never use or consume all the raw materials of industry by the most strenuous exertions. Mr. Henry Ford " saves " millions of dollars' worth of raw material every year, but Mr. Ford would be at a complete loss with his own hands to use, consume or even destroy that raw material at the rate at which he " saves " it. The " saving " of the raw material is done by the workers in the Ford factories and by users of Ford cars in all parts of the world, over whose liberty of consumption Mr. Ford has acquired control.

The " savings " of the people of Great Britain are not effected by " the quiet, prosaic, and often rather mean "and timorous people," of whom Mr. Withers writes, except to a very small extent.

> Something like three-fourths of the new capital invested in industry is set aside out of profits. It is this immense fund to which we gave the name of "expansion reserves."
>
> Before any funds can be available for expansion reserves, a business must have met a variety of charges. It must have paid to management its agreed salaries, and to labour its agreed wage-rates. It must have made reasonable provision against depreciation. It must have provided standard interest on fixed-rate capital, and a reasonable return on ordinary stock; and, where the ordinary stock-holder has foregone a fair return in order to build up the business, it ought to have made provision for a return for this abstention. It ought also to have provided a stability-reserve, to keep the business going in a period of pressure.
>
> But after all these needs have been met, it would seem to be both equitable and socially desirable that any new capital created out of surplus should be shared with those who have helped to create it, and should not be exclusively credited to the owners of the ordinary capital, who may have contributed nothing at all to the exceptional prosperity of the concern, and who have, *ex hypothesi*, already received a fair return on their investment.—"*Britain's Industrial Future*," *Pp. 248–49.*

The savings of money that the capitalist class make represent the sacrifices that they have forced upon the whole body of consumers in the country, even as the Pyramids of Egypt represent the sacrifices that the enslaved people of ancient Egypt were forced to make by the kings who ruled them.

There is no statement that has been more often made by politicians, economists, bankers, financiers and writers in the Press or more unreservedly accepted by every one else than that the inflation of the currency in Germany between 1921 and 1923 destroyed the liquid capital of Germany. No greater nonsense has ever been put into words——even in economic and financial literature.

The inflation of the mark started in 1914, but it is only to the later periods of the inflation of the mark that the destruction of Germany's liquid capital is attributed. The mark was re-stabilized at the end of 1923. The first loan Germany received from a foreign country after the World War of 1914–18 was the Dawes loan of 1924, and it was not until 1925 that bankers in the United States of America made the discovery, that Germany was in need of "liquid capital." No one has explained how Germany existed between 1923 and 1925 and completely re-established its whole economy if its liquid capital had, meanwhile, vanished into thin air.

The inflation of the mark in Germany resulted in a billion (a million millions, that is, 1,000,000,000,000) of marks representing what in July, 1914, was represented by one mark. When the mark was re-stabilized, the arithmetical process was reversed. The people were commanded by a decree of the Government to write one Rentenmark instead of 1,000,000 millions of marks. The Rentenmark was a bit of paper exactly like the depreciated mark. It was not convertible into gold. It was not even legal tender, that is to say, no one could be forced to accept payment of a debt in Rentenmarks. The relation of the Rentenmark to the depreciated mark was fixed by a decree of a Government, the second Stressemann Government, that had been formed nine days before. The people, very wisely, chose to obey the decree and found it surprisingly easy to strike out the noughts and inscribe one Rentenmark, instead of 1,000,000 millions of marks.

Between 1921 and November, 1923, the German people had been adding noughts to the figures in their accounts with something like the enthusiasm that children develop for noughts when they are first initiated into the mysteries of the multiplication table. When stabilization was to be effected, the people of Germany were commanded by the Government to divide their monetary numbers by 1,000,000,000,000, and the new arithmetical operation sent an equal thrill of satisfaction throughout the country.

The multiplication and the division of numbers representing marks naturally caused a great deal of confusion in Germany between 1918 and 1923, especially in 1922 and 1923, but, throughout the period, the mines, factories and mills and the railways, electric power stations and bridges and houses in the country remained as unperturbed as the Sphinx in Egypt. The "durable wealth," the fixed capital, of Germany was undiminished during the period of the inflation of the mark. In fact, the fixed capital wealth of Germany was enormously increased during the inflation of the mark by the very simple process of working and producing goods.

Nor did the production of liquid capital, "the goods "of rapid consumption," slacken, as the production of paper marks increased. Whatever was the number of noughts in which a glass of beer or a loaf of bread was calculated, Germans continued to make and drink beer and to make and eat bread. In fact, the economists and the financiers admit that production was at a phenomenally high level in Germany during the period of the inflation of the mark. There was no unemployment—an unchallengeable proof of great production. If Germany was producing "goods of rapid consumption" on such a magnificent scale during the period of the inflation of the mark, how did Germany come to be short of liquid capital?

Germany supplemented its production of "goods of "rapid consumption" or liquid capital and its production of "durable wealth" or fixed capital during the period of the inflation of the mark by an excess of imports of "goods of rapid consumption" or liquid capital upon a scale without parallel in the history of Germany or the history of any other country. It left the rest of the world gaping with astonishment, and no one was more astonished than the economists and the financiers who were the advisers of the Governments of the countries that had defeated Germany in the World War of 1914–18 and were waiting for Reparations from Germany to turn up.

During the time that the imports of Germany very greatly exceeded the exports, that is, in 1922 and 1923, the economists and the financiers declared Germany to be bankrupt and irretrievably ruined, the reason given being the excess of imports. The fact that the exports fell short of the imports was pointed to as positive proof that Germany had not, and would never have, the means to pay for its imports of goods. None of the economists nor the financiers realized at the time that Germany was paying for the excess of its imports by issuing promises to pay in the form of the marks that foreigners were foolishly taking in the belief that one day the German people would give a billion pre-war gold marks' worth of goods for every billion of paper marks the printing presses were turning out. In that way the Germans obtained vast quantities of goods against paper marks that subsequently depreciated to nothing.

It is calculated that by means of the inflation of the mark Germany "robbed" the world of £500 millions of "goods of rapid consumption" or liquid capital. Whether it was robbery or not, robbers who make away with their booty are not declared to have lost anything—either fixed capital or liquid capital. The truth is that, by exploiting the credulity of the world between 1918 and 1923, Germany added enormously to the amounts of both fixed capital and liquid capital in Germany.

No one will deny that a civilized community should possess all the instruments of production that it needs for producing "goods of rapid consumption" or for producing goods that might be exchanged for "goods of rapid "consumption" produced by other countries. When, however, the limit has been reached—and every one admits that there is a limit—the further installation of instruments of production would be foolish. In the same way, when a community has all the roads and bridges it needs, the construction of unnecessary roads or railways would be equally foolish.

It is essential that a country should possess not only adequate but also thoroughly up to date and efficient instruments of production. It is also essential that the public services should be adequate and afford the maximum amount of comfort. The installation of the instruments of production and of public utilities, it must be remembered, however, is a means to an end, not an end in itself.

In Great Britain the instruments of production in some industries are antiquated. The public services, although adequate, admit of much improvement in details. In Germany, the instruments of production in some industries are better suited to their purposes and production is more highly organized than in Great Britain. In Germany, the public services are ampler, more heavily equipped and disclose a closer attention to details than in Great Britain.

Great Britain and Germany exported on credit both "goods of rapid consumption" and instruments of production and the materials of public utility services before the World War of 1914–18, but there was a most important difference. Whereas Germany exported instruments of production and material for public utility services on credit, while at the same time equipping the country very handsomely, Great Britain exported instruments of production and material for public utility services on credit with much less attention to the needs of Great Britain itself.

The accumulation of fixed capital is a disagreeable necessity. It involves a sacrifice. The capitalist justification of interest on capital is that, as capital is hard "to "save," the owners of capital must be handsomely rewarded for the "sacrifices" they make. That being the nature of capital, the extent of the production that goes into the formation of capital must be strictly limited.

The apologists of the capitalist system might place the limit of the amount of the instruments of production or of public utility services that a country needs as high as they please, but, having done so, they will be forced to admit that when a country begins to export instruments of production and the materials of public utility services on credit to other countries, the limit—as regulated by national character, the economic system or the legislature—has been reached.

The only capital, both fixed and liquid, that Great Britain could export are foodstuffs, raw materials or manufactured goods such as railway material, machinery, clothes, and shoes—whether the goods be "goods of "rapid consumption" or "durable wealth"—that might be used by men, women and children in Great Britain or might be exchanged for other foodstuffs, raw materials and manufactures that might be used by men, women and children in Great Britain.

Economists and financiers do not, however, recognize that capital consists of goods that might be used or consumed by the masses of the people or be exchanged for goods that might be used or consumed by the masses of the people. The term, capital, is used by economists and financiers to imply only fixed capital. It is supposed that when a country exports capital, a country exports only instruments of production, railways and the materials of other public utilities, which, for some undivulged reason, should not be exchanged for foodstuffs and other goods that might be consumed or used by the masses of the people.

The meaning given by economists and financiers to the term, capital—in contrast to the meaning given to the term, capital by Professor Irving Fisher—has been clearly stated by Professor Taussig. He writes:

> If we were to take a cross section of the community's possessions at any given time, we should find them to be of the most diverse sort.
>
> There would be, in the first place, such things as iron ore and steel bars, timber and wool and cotton, factories and railways and ships, stocks of all sorts in warehouses, commodities ready for sale in retailers' shops.
>
> And in the second place, there would be houses, furniture, clothing and food, in the hands of those using them for the satisfaction of wants.
>
> To the first set of things we apply the term capital, or producer's capital; the second set we call consumer's capital, or wealth that is not capital.—"*Principles of Economics*," *Volume I*, *P 69*.

Professor Taussig, it will be noticed, gives to goods the attributes of capital only when they are used for producing other goods. According to his definition, the chair on which Mr. Henry Ford sits in his office is capital, but the chair on which he sits at home is not capital. Perhaps it would be difficult for Mr. Ford to say whether inspiration comes to him more easily when he sits on the chair in his office than when he sits on the chair in his home. Mr. Ford, like the sensible man he is, does not "keep office hours." He works every hour he is awake. It is unnecessary, however, to examine Professor Taussig's definition of capital——the shortcomings of the definition are perfectly obvious.

It is on the pretext that all goods exported from a country on credit constitutes what Professor Taussig calls producer's capital that all economic and financial theory is based.

Professor Alfred Marshall, after pointing out that, in "ascending periods" of foreign trade, Great Britain "exports largely on credit," says:

> Her [Great Britain's] area is so small, relatively to her capital —it is, so to speak, so nearly saturated with capital—as to allow [little] scope for any new enterprise that holds out prospects of high return. Consequently, the activity of her industries depends in an exceptional degree on the confidence and strength of business enterprises in other countries, and especially in new countries.
>
> That confidence is sometimes misplaced, but so long as it lasts, capital flows from her for investment abroad, and especially in new countries; and the only way in which this flow can be effected is by a net increase of exports, visible and invisible; that is, by making aggregate exports larger relatively to imports than they otherwise would have been.—"*Money, Credit and Commerce*," *Pp. 138–39.*

According to capitalist doctrine, when a country gets to the stage at which it has no further need or little further need of adding to its public utilities or its instruments of production, that is to say, to its fixed capital or "producer's capital"——whether there are a sufficient number of houses in the country or not——it has no alternative but to continue the accumulation of such public utilities and instruments of production for lending as capital to other countries. Mr. A. Emil Davies writes:

It takes the most prosperous "new" country a very long time before it has a surplus for investment abroad, for although it may be creating additional capital all the time, it continues to consume more new capital than it produces.

It is only when a country is fully covered with a net of railroads and equipped with the *outillage* of modern life—harbours, means of transport, bridges—that it is in the way of becoming a large foreign investor.—"*Investments Abroad*," *Pp. 8–9.*

That is the explanation that is given of the excess of exports of capital from Great Britain, the other industrial countries of Europe and the United States of America. It may be that the industries of Great Britain are unable to produce anything else but railway material, locomotives, bridges and cranes. That in itself, however, is not a sufficient justification for the installation of such public facilities and instruments of production in Australia or the Argentine in the name of a certain number of people in Great Britain called investors.

Railway material and bridge material are as suitable as motor cars, cotton textiles or artificial silk as means of payment for imports of foodstuffs and raw materials. If a country is capable of manufacturing only instruments of production and the material of public utility services, the export of the surplus of those goods must be made solely against imports of "goods of rapid consumption." The people of the country can have no economic interest whatever in adding to the amount of fixed capital they own, whether in their country or in other countries, for it must be the purpose of a people to secure the maximum amount of production for consumption with the minimum amount of fixed capital—not with the maximum amount of fixed capital.

Fixed capital consists, as already explained, of such instruments of production as machines (which are of no interest to the inhabitants of a country except for the production of certain classes of goods) and of public utility services (which also serve only certain specific purposes) and of buildings, houses and various other forms of property. Therefore, whatever might be the virtues of fixed capital, when a country begins exporting instruments of production and the material of public utility services on credit to other countries, the time has obviously come when the country can afford to increase the goods that go into consumption. Those goods might consist of goods produced in the country or goods imported into the country in exchange for all goods and services exported from the country.

CHAPTER XII

THE DEVELOPMENT OF THE NEW LANDS—I

The Pretext that Exports of Capital Promote Emigration

THE export of capital from the industrial countries of Europe to the new lands of the colonial world is justified on the ground that the goods or capital so exported contribute to the opening up and development of the new lands, thereby creating opportunities for the settlement of emigrants from Great Britain and the other industrial countries of Europe and stimulating the natural expansion of the populations of the new lands.

Now, as has already been explained, the exports of capital from the industrial countries of Europe represent the extent to which those countries have refused to import the produce of the new lands. The goods and services imported into the new lands on credit would have been imported against exports of foodstuffs and raw materials if only the economy of the industrial countries of Europe had been capable of absorbing larger quantities of foodstuffs and raw materials. In this chapter, however, that aspect of the facts will be completely ignored, and what actually has been accomplished in the new lands with the capital borrowed from Great Britain and other countries will be examined.

The only one of the new lands that has secured a considerable population is the United States of America. With an area vastly larger than that of India the United States of America has today a population just a little above one-third of the population of India. The United States of America is certainly a remarkable example of the development during two hundred years of a vast territory by foreign colonists, and that stupendous feat was achieved by the importation in the form of borrowed capital of only £1,000 millions sterling from the industrial countries of Europe.

The self-governing dominion of Canada and the colony of Newfoundland alone had in 1914 imported as much capital as the United States of America.

Australia, New Zealand and South Africa, the other self-governing dominions of the British Empire, had together also imported in 1914 as much capital as the United States of America.

The Dominion of Canada is very nearly as large as the United States of America, and the Commonwealth of Australia with an area of very nearly 3,000,000 square miles is not much smaller than the Dominion of Canada.

India will be left out of consideration, as India is an "old country," and the export of capital to India was not made upon the plea of rendering India habitable to a permanent colony of Europeans.

The Republics of South America had, at the outbreak of the World War in 1914, imported considerably more capital than the United States of America from the industrial countries of Europe.

The Republics of South America constitute some of the largest areas in the world. The United States of Brazil is one of the three largest countries in the world, and so rich is that mighty territory in natural resources that it has been calculated that it could support a population of 2,000 millions, that is, a larger population than the total present population of the whole world.

The total population of the whole of South America is only seventy millions, or a little larger than the population of Germany and Austria combined. Brazil is two and a half times the area of India, but has a population of only thirty millions, that is, one-tenth that of India. The population of the Argentine is less than ten millions, that is, less than two-thirds of the population of Czechoslovakia.

The failure to populate the mighty continent of South

America is all the more remarkable when it is borne in mind that Brazil was discovered before Vasco da Gama found the sea route to India and that the present republics of South America were colonies of Spain or of Portugal before the American War of Independence. No one can pretend that the thousand millions of British and five hundred millions of other foreign capital invested in South America before 1914 has been conspicuously productive of considerable results in population. South America has failed to prove a satisfactory outlet for European emigrants.

But the population of South America is a considerable achievement in comparison with the populations of the other group of new lands, namely, the British self-governing dominions.

The population of the mighty Dominion of Canada is less than ten millions.

Of the total population in 1921, 6,832,747 were Canadian born, 1,065,454 British born, and 890,282 foreign born, 374,024 of the latter being U.S. born.—"*The Statesman's Year Book,*" *1927, P. 281.*

During the nineteenth century, as already pointed out, very nearly as much British capital was exported to Canada as to the United States of America, but whereas the population of the United States of America increased by leaps and bounds, the population of Canada was practically stationary.

The failure of emigration to the new lands has arisen not from a dearth of capital in the new lands, but, firstly, from the inability of the capitalist economy of the new lands to absorb large numbers of immigrants, and, secondly, from the failure of the other industrial countries of Europe to supply the right class of emigrants.

In striking contrast to the thousands of millions of pounds sterling of British capital poured on the new lands upon the pretext of developing them for the reception of immigrants from Great Britain is the allotment of insignificant sums of money in Great Britain for the training of would-be emigrants for settlement in the new lands.

A statement made by Colonel Dennis, Chief Commissioner of the Colonization Department of the Canadian Pacific Railway, to the Toronto correspondent of *The Times* on April 26, 1927, stressed that fact.

> The available supply of agriculturists in England is greatly limited, Colonel Dennis states. The two training centres under the Ministry of Labour are turning out men highly qualified for agricultural work in Canada, but he regrets that the number under training is not two or three thousand instead of two or three hundred.

Although Canada has absorbed only an insignificant number of emigrants from Europe, Canada is experiencing considerable difficulty in providing for its population. There are acute unemployment problems with which Canada has to deal. The most pressing appeals from Great Britain to Canada to facilitate emigration from Great Britain have failed to turn the Government of Canada from its policy of restricting the flow of immigrants by insisting upon standards and conditions that would-be emigrants from Great Britain would rarely be able to fulfil. The modification of the immigration policy of Canada made in 1929 is intended to alter the racial composition of the immigrants, but not to increase the total number of immigrants.

The failure of Australia to attract immigrants and to increase its own population by natural growth is no less complete, and Australia has been generously supplied with capital. The first free immigrants arrived in New South Wales in 1793—the year of the Great Revolution in France—and, according to the Australian Year Book, 1926, Page 895, the number of immigrants from the "earliest years to the end of 1925"—a period of 135 years—was only 964,299. The number of immigrants into Australia between 1914 and 1925 was only 153,680.

Grave problems of unemployment have arisen in Australia, and Australia is now, for all practical purposes, definitely closed to immigrants, whether British or foreign.

Sir Robert Horne, a former Chancellor of the Exchequer of Great Britain, speaking at Glasgow on April 16, 1927, declared that one of the means of relieving unemployment in Great Britain was emigration. To quote the report in *The Times*:

> He had himself investigated this problem in a recent voyage to Australia and New Zealand, and he confessed that he found the problem much more refractory than he anticipated. At the time of his visit New Zealand and most of the States of Australia were confronting unemployment difficulties of their own. . . .
>
> New Zealand had for the time being shut its doors to all except juvenile immigrants; and the states affected in Australia were likely to suspend the acceptance of new adult citizens for some months to come. . . .
>
> It was necessary to give up all immediate thought of schemes of mass emigration from our shores. . . . In the main, he thought it might now be assumed that there would be no outlet in the Dominions for the larger portion of those at present unemployed in this country.
>
> These we should have to carry ourselves until a sufficient revival of prosperity enabled them to be absorbed once more in home industries.

The Union of South Africa—if the cost of the South African War to the British people be included—has absorbed more British capital than the United States of America. What opportunities for emigration has South Africa given the British people in return for that gigantic outlay?

The total population of the Union of South Africa is just above seven millions, of which only 1,672,106 are Europeans. The European population is about evenly divided between Boers and Britons. The problem of "the poor white" in South Africa has imposed upon South Africa a restrictive immigration policy, and South Africa is not even considered as an outlet for the "surplus" population of great Britain or of any other European country.

The total capital wealth of Great Britain, that is, the country's entire assets, were estimated in 1914 at £13,000 millions. At the outbreak of the World War in 1914

Great Britain had invested in the self-governing British dominions over £3,000 millions of capital, that is, very nearly a fourth of its total capital wealth, and in 1914 the total capital wealth of all the self-governing dominions was very much in excess of the total capital wealth of Great Britain, but the total populations of all the self-governing dominions in 1914 was about a fourth of the total population of Great Britain.

The great argument for the export of capital to the new lands is that, owing to the richness and abundance of their natural resources, capital produces many times the fruit that it produces in the poor countries of Europe. Upon that basis the capital wealth of the self-governing British dominions ought today to be supporting a population at least twice as large as the population of the British Isles.

The export of capital from Great Britain to the self-governing British dominions for the supposed purpose of developing them for the absorption of the "surplus" population of Great Britain has proved an unredeemed failure. During the past ten years Great Britain has been unable to send even a fraction of her unemployed to the self-governing British dominions upon which Great Britain has lavished thousands of millions of pounds sterling of capital.

The following are the figures of the populations of the self-governing British dominions and Newfoundland:

Canada	9,504,700
Newfoundland and Labrador	258,425
Australia	6,043,924
New Zealand	1,344,384
Union of South Africa (whites only)	1,672,106
	18,823,539

Thus, the total present population of the self-governing British dominions and Newfoundland is only slightly in excess of three very small countries in Europe, whose natural resources are of the poorest, namely, the Netherlands, Belgium and Denmark.

Country	Area in English Square Miles	Population
The Netherlands . . .	13,210	6,865,314
Belgium	11,755	7,811,876
Denmark	16,568	3,434,555
		18,111,745

The capital wealth of the Netherlands, Belgium and Denmark, is a small fraction of the capital wealth of the self-governing British dominions. One may leave it to casuists to argue whether the populations of the Netherlands, Belgium and Holland are better off or worse off than the populations of the self-governing British dominions, lying under the shadow of mighty foreign debts. The Netherlands and Belgium are debt-free countries, and Denmark is a debtor country only to the extent of a small amount.

No one will deny that the new lands need capital. Every pioneer needs capital. Emigrants from Great Britain must need considerable quantities of capital, but the exports of capital from Great Britain are not the amounts of capital that emigrants take with them.

The whole purpose of the export of capital from Great Britain to the new lands is the retention of the control of that capital in Great Britain. The capitalists of Great Britain do not emigrate with bag and baggage to the self-governing British dominions, there with the aid of their capital and their genius for the creation of capital to give rise to fresh pyramids of capital. The accepted policy of emigration from Great Britain is the emigration of the capital-less classes. The self-governing British dominions are to be the dumping-ground of only the impoverished and demoralized "surplus" millions for whom, under the capitalist system, Great Britain has no further use.

The economic policy of Great Britain today is to keep its capitalist class with investments in the self-governing dominions within the borders of Great Britain and dump the miserable paupers of Great Britain upon the self-governing British dominions. If the development of the self-governing British dominions as independent economic units were the purpose of Great Britain, it is the wealthy capitalists of Great Britain that should go out to the self-governing British dominions. Against the policy pursued by Great Britain in its economic relations with the self-governing British dominions, a colonial, while on a visit to Great Britain, made an incisive attack in a letter to *The Manchester Guardian*.

Mr. H. Cheriton Hilgate, presumably a Canadian, whose address was given as Kidmore End, near Reading, wrote to *The Manchester Guardian* as follows on September 2, 1927:

> The only aspect of the urgent problem ever apparently considered here is, first, how to unload your superfluous poor into the Dominions, and, next, how to account for your failure to do so.
>
> The re-distribution of your superfluous rich, of whom evidently there is a far greater supply, never seems to occur to any one as the obvious initial step towards a sound and permanent solution of the question. . . .
>
> This absurd creed that migration is the last resort of the down and outs, and something rather shameful for any one else, and its translation into a driving policy, is responsible for the entire fiasco now patent even to its own supporters, who paint angry pictures of an ungrateful plebeian populace preferring starvation at home, alleviated by the indignity of the dole, to starvation—aggravated by official contumely—in untried circumstances far beyond the reach of assistance from friendly hearts and hands. . . .
>
> The dominions are not solely, or even partly, a huge dumping-ground for all the jumble and rubbage it would suit officialdom to get rid of—a mere W.P.B., to which may be consigned (with a pleasurable sense of national duty fulfilled and social responsibility comfortably shifted) the inconvenient sights and sounds afflicting the consciences of the well-to-do.
>
> The Commonwealth is, rather, a magnificent field for the abilities of the superfluous rich, whose traditions, income and leadership may there be utilized far more effectively for the welfare of the Empire than is the case now. . . .
>
> The idiotic policy of sending the cart before the horse, the wage-earner before the wage-payer, the following class before its accustomed leaders, has been tried long enough.
>
> We need a great crusade of national service, led by those whose circumstances permit them to lead, and whose vision is fulfilled in the ancient creed of *Noblesse oblige!*

That straightforward statement of the facts, as far as the present writer is aware, aroused no comment. The absurd convention of the newspapers, according to which one newspaper avoids drawing attention to statements published in other newspapers if the statements can possibly be ignored, is no doubt in large part responsible. Had some one who combined a conspicuous position with a conspicuous lack of ability made a statement of the usual clap-trap and cant about the development of the dominions, all the usual arguments in favour of the export of capital would have been whipped up for service in leading articles in the newspapers. Many newspapers in Great Britain pride themselves upon the fact that they do not entirely ignore the rest of the Empire, but the news is trash, and the comment is cant.

The peoples of Canada and Australia are too conscious of their economic difficulties to allow the country to be over-run by British emigrants. The capitalist economy of the self-governing British dominions has produced results identical with the results produced by the capitalist economy of Great Britain. Both the dominions and Great Britain are face to face with the same economic problem, namely, that of being unable to support a population expanding by natural growth. If the economy of Canada and of Australia were sound, Canada and Australia would be attracting the so-called surplus of Great Britain's population as by a magnet.

The position is that the so-called surplus population of Great Britain is wanted neither in Great Britain, in Canada nor in Australia. The existence of a surplus population in Great Britain is attributed to poverty of natural resources. The incapacity of the self-governing dominions to support more than a few millions of population each is attributed to a shortage of capital, although more capital has been poured into the dominions than into any other group of countries with an equal population, and the total capital wealth of the dominions is enormous.

Canada has drawn capital not only from Great Britain, but also from the United States of America, and the prodigious extent to which Canada has absorbed capital from the United States of America is shown by the fact disclosed in the following statement:

> If we take the total of foreign loans now outstanding in New York, we find that Latin America has absorbed the largest proportion, namely, 36%, leaving Canada with 26% and Europe with only 29%.—"*American Investments in Europe*," *P. 16.*

If after the importation of thousands of millions of capital Canada can not support a larger population than ten millions, Canada will not have a population of fifty millions five centuries hence. Nor is Australia going to acquire fifty millions of population within the same period of time under the capitalist system.

CHAPTER XIII

THE DEVELOPMENT OF THE NEW LANDS—II

The Export of Capital from the Industrial Countries of Europe Destroys Markets in the Colonial World

EVEN apologists of the present capitalist system will admit that the industrial countries of Europe can never experience any difficulty in exporting goods to the extent of their own imports of the foodstuffs and raw materials of the colonial world. That fact completely destroys the oft-repeated argument that the great pre-occupation of the industrial countries of Europe is to find markets for their manufactures in the colonial world.

If a surplus of manufactures is inevitable in the economy of the industrial countries of Europe, so is a surplus of agricultural products in the economy of the colonial world. Canada is not likely to be able to use all the wheat it grows, nor Australia all the wool it raises, nor India the whole of its jute crop. No one dare suggest that the countries of the colonial world would use the virtual monopoly they have of certain foodstuffs and raw materials to oppress the peoples of the industrial countries of Europe by restricting the production of those foodstuffs and raw materials. If Canada exports wheat, Australia exports wool and India exports jute to the industrial countries of Europe, Canada, Australia and India can receive payment for wheat, wool and jute only in the manufactures of the industrial countries of Europe.

As already explained, the industrial countries of Europe can certainly dispose of a large part of their production by exporting goods on credit. If the mere disposal of production were the only concern of the industrial countries of Europe, the problem of finding markets would not be at all difficult. If markets for exports of goods are to be of any economic value to the peoples of the industrial countries of Europe, however, the markets for exports of goods must be buying markets, not mere borrowing markets.

That distinction is not at all recognized, and the only anxiety of the industrial countries of Europe is to find opportunities of disposing of a considerable part of their production either against imports of foodstuffs and raw materials or on credit.

The Rt. Hon. L. S. Amery, his Majesty's British Minister for the self-governing dominions of the Empire, has delivered a considerable number of speeches, in which he has eulogized the self-governing British dominions for the large amounts of goods that they "buy" in Great Britain. He has drawn comparisons between the "purchases" of each of the self-governing British dominions in Great Britain and the purchases of other countries and thereby endeavoured to show the British people that the self-governing British dominions are an enormous asset as markets to the people of Great Britain.

The facts are entirely the other way. The imports of goods from Great Britain——and even Mr. Amery dare not dispute that——into the self-governing British dominions would be a great deal less than they are, were it not for the fact that a large part of the goods exported to the self-governing British dominions are exported on credit.

China, France, Italy, Japan, Russia and other non-British parts of the world pay Great Britain in cash for the goods they import from Great Britain, whereas the imports into the self-governing British dominions from Great Britain are partly imports on credit. The self-governing British dominions are borrowers rather than buyers from Great Britain. If Great Britain were able and willing to give goods on credit to all and sundry on the scale on which Great Britain gives goods on credit to the self-governing British dominions, there would be no dearth of British exports to non-British parts of the world.

Moreover, even under the conditions in which the trade between Great Britain and the self-governing British dominions is carried on, the exports of Great Britain to all the self-governing British dominions, both for cash and on credit, do not equal the exports for cash from Great Britain to India alone, and the self-governing British dominions, to which Great Britain has exported ten times the amount of capital Great Britain has exported to India, have, accordingly, been singularly disappointing "markets"——even markets of borrowers——for British goods.

The exports of goods from Great Britain to the self-governing British dominions have been made the subject of every kind of absurd and useless exaggeration and misrepresentation. For example, commentators on the "depression in trade" have pretended to see a silver lining to the cloud in the statistical discovery that the exports of Great Britain to the rest of the Empire constitute a higher percentage of the total exports of Great Britain since the World War of 1914–18 than before.

The President of the Board of Trade, Sir Philip Cunliffe-Lister, stated in the House of Commons on July 25, 1927:

> Of British exports, in 1913 the British Empire took 37·18 per cent., Europe 34·02 per cent., and the rest of the world 28·80 per cent.
>
> In 1925, the British Empire took 39·18 per cent., Europe 31·20 per cent., and the rest of the world 29·62 per cent. . . .
>
> I have given the figures for the total exports, but, if we confine ourselves to the figures for the export of manufactures alone, cutting out raw materials, the proportion going to the Empire is greater even than the large proportion I have stated for total exports.—*Parliamentary Debates, House of Commons, Column 883.*

The fact is that *there has been a decline since the World War of* 1914–18 *in the exports of goods from Great Britain to the rest of the Empire*, although the exports of goods to the rest of the Empire form a higher proportion of the total exports of Great Britain. In other words, the oversea parts of the Empire import smaller quantities of goods (for cash and on credit) today from Great Britain than the oversea parts of the Empire imported from Great Britain (for cash and on credit) before the World War. The change in the proportion has occurred because, while the self-governing British dominions continue to receive large quantities of goods on credit from Great Britain, the rest of the world receives, since the World War, only very small quantities of goods on credit from Great Britain.

The most striking example is afforded by Canada. When allowance is made for the difference between prices before 1914 and prices since 1918, it will be seen from the following statistics that Canada is a diminishing market for British goods:

Year	Value of British Goods imported into Canada
1913–14	132 million dollars
1922–23	141 „ „
1923–24	153 „ „
1924–25	151 „ „
1925–26	163 „ „
1926–27	163 „ „

In terms of prices in 1913, the imports into Canada in 1926–27 were the exact equivalent of 100 million dollars, whereas, in 1913, the imports of British goods into Canada were 132 million dollars.

The entirely misleading comparison of percentages made by Sir Philip Cunliffe-Lister has been repeated on the platform and in the Press. It is quite impossible to understand how public speakers and writers in the Press persuade themselves that inaccuracies of statement serve the interests of Empire trade. Even *The Times*, which maintains a standard of accuracy and integrity in the statement of facts that is almost unique, wrote:

The increase of exports resolves itself into finding markets overseas. One result of the war has been the impoverishment of what were some of our best markets abroad, but against that loss must be set *the increasing power of the Empire to absorb the exports of this country.*

The proportion of our trade with the Empire has risen from 37 per cent. in 1913 to 39 per cent. in 1925 and to 43 per cent. so far this year.

These results amply justify the steps that are being taken to promote the welfare and development of the Empire overseas, since the increase of its wealth and population has an immediate reaction in a greater demand for such goods as this country is able to supply.—Leading article in "The Times," July 26, 1927.

Since the World War of 1914–18 the self-governing British dominions have become large borrowers in the United States of America, and the exports of goods on credit from the United States of America to the self-governing British dominions have become a favourite subject of congratulation to statisticians in the United States of America. Canada is importing capital from the United States of America on a vast scale, and, inevitably, the imports of goods from the United States of America into Canada are on a vast scale. The imports of goods on credit into Canada from the United States of America are, however, not "purchases" but borrowings:

Canada spent more than $70 a head for goods purchased in the United States in 1927, official figures released by the Government show.

The total spent in the United States was $707,270,444, or $466,884,511 more than the total purchases by Canada in the whole of the British Empire.—*A message, dated Ottawa, Ontario, March 2, 1928, in "The New York Herald."*

Dr. Julius Klein, Director of the Bureau of Foreign and Domestic Commerce, stated on September 7, 1926:

Australia and New Zealand find American products peculiarly and increasingly adapted to their wants. . . .

Our sales to these two countries of nearly $200,000,000 in 1925–26 represented not much less than $30 per capita.

Australia and New Zealand bought $54,000,000 worth of American automobiles and trucks, more than six times as much as four years before. They are today our leading overseas markets for automotive products.

Our exports to British South Africa in the last fiscal year were no less than 168 per cent. greater than four years ago.—*Quoted in "America's Secret," P. 45.*

The reckless borrowing by Australia has been severely condemned by men, whose opinions on the subject can not but be respected. Mr. J. Newman Barker, vice-chairman of the National Bank of Australasia, presiding at the annual general meeting held in Melbourne on May 25, 1927, said:

I feel bound to say that the tendency in some parts of Australia seems to be to borrow too freely and without adequate attention being paid to the aggregate interest burden and the ability of the country to carry it without injuriously adding to taxation, direct or indirect.

Unless this tendency be drastically checked, the effect can not be other than highly prejudicial to the interests of the Commonwealth as a whole.—"*The Times.*"

Mr. Andrew Williamson, chairman of the English, Scottish and Australian Bank, Limited, speaking at the annual general meeting held in London on November 16, 1927, said:

Last year saw the highest total of imports yet reached, exceeding the boom year of 1920–21.

The imports last year, you observe, exceeded the exports by nearly £20,000,000. . . .

The borrowings outside Australia by the Commonwealth and the States and municipalities are, of course, reflected in the total imports, as is also the inflow of capital from abroad to companies and firms.

When, however, the fullest allowance for such is made, the excess of imports over exports gives cause for concern, and indicates an extravagance of expenditure that is a menace to the ultimate well-being of Australia. Both public and private expenditure could be materially curtailed with real benefit to the whole community.

A new factor which of quite recent years has stimulated the demand for imported goods is the great extension of selling by importers of goods on the payment-by-instalment plan.—"*The Times.*"

New Zealand has borrowed as freely as Australia. The Hon. W. Pember, chairman of the National Bank of New Zealand, presiding at the annual meeting of shareholders held in London, on July 7, 1927, said:

In a clear, and, on several points, convincing speech made by the Finance Minister at Fielding about two months ago, Mr. Downie Stewart admitted that the chief item in the increased expenditure of the year came under the heading of interest and pensions.

This piling up of interest charges on a heavily taxed country when there is little prospect of expanding revenue is a serious matter.

It was one thing to borrow a million or two annually in the old pre-war days when rates and taxes were light. It is another thing to borrow six or seven millions annually when rates and taxes taken together amount to £15 or £16 a head.

The population of New Zealand increases steadily, but the total is still small. . . .

Yet the producers and other workers of this small people have to carry on their backs, not only the public debt mentioned [£250 millions], but municipal debts of over £50,000,000 and mortgage indebtedness of about £292,000,000.—"*The Times.*"

Mr. Pember mentioned some figures to show the recklessness with which the small population of New Zealand were importing goods on credit. He said:

Last year the imported [motor] vehicles alone from the United States were valued at nearly £2,000,000 sterling as against £776,000 from Great Britain. . . .

I may mention that the total value of motor vehicles, motor spirit, and rubber tyres imported during the year under review into New Zealand came to nearly £6,500,000 sterling.

In the light of the facts mentioned in the statements quoted above, one can experience no difficulty in assessing the following declaration at its true worth:

Australians buy more British goods than the 67,000,000 people in South America, and more than the 54,000,000 in France, Belgium and the Netherlands.

New Zealand in the first half of this year bought more than Japan or Italy, India took nearly an eighth of the whole British export trade.

Ceylon took considerably more than Greece, Nigeria more than Norway.—"*Empire Consciousness,*" *leading article in* "*The Times,*" *on August 26, 1927.*

The self-governing British dominions are, certainly, magnificent dumping grounds for British goods on credit. Nor have the pampered republics of South America proved larger buying markets than the self-governing British dominions. Large British exports to South America are rather a pre-war memory than a post-war reality. Since the World War of 1914–18 the lending of goods to the republics of South America has ceased completely, and the artificially inflated balloon of British exports to the republics of South America has consequently shrunk and shrivelled into a diminutive and exiguous sausage.

Every report on trade prospects in the Argentine, celebrated as one of Great Britain's best "customers" before the World War of 1914–18, emphasizes that British goods can be sent to the Argentine only upon the pre-war basis, that is, against I.O.U's.

In a message on road-making in the Argentine from a special correspondent in Buenos Aires published in *The Times Trade and Engineering Supplement* of April 9, 1927, it was stated:

> Finance is, indeed, the key to successful tendering in this connection. Not only must the roads be made but the cost must be spread over a comparatively long term of years.

The following is a message from a special correspondent in Buenos Aires to *The Times Trade and Engineering Supplement* of August 27, 1927:

> But if we are to keep our hold on the market we must do as our competitors are doing, and not only take every advantage obtainable from the existence of a large amount of permanently invested capital, but also do what we can to increase our commitments, and to see that British capital is synonymous with the supply of British goods on every possible occasion.

The large investments of British capital in the Argentine and the other republics of South America have imposed upon the peoples of those countries insupportable financial burdens. In 1927 the Minister of Finance of the Argentine published a report on the country's financial position, in which the increase in the indebtedness of the Argentine was very clearly shown. The Buenos Aires correspondent of *The Economist* wrote as follows:

> *The danger of this rapid increase of indebtedness is pointed out in the ministerial report, and is even more emphatically described in the local Corporation of Bondholders' Report for the year ended June 30, 1927.*
>
> This body, formed locally to protect the rights of investors in Argentine bonds and shares, has issued a detailed analysis of the national, provincial and municipal debts, which at the present time are equivalent to a total of $3,039,513,673 paper.
>
> *Emphasis is laid on the fact that not only is this sum total of debt fairly heavy, but that, inasmuch as 40 per cent. of it corresponds to administrative expenditure, it cannot be regarded as wholly productive, and certainly not as earning the sums necessary for its regular service.*
>
> *It is further pointed out that in many cases, particularly in the provinces, accumulation of indebtedness has latterly exceeded the increase of public wealth and the ability of the taxpayer to meet the additional charges that such indebtedness implies. Moreover, inasmuch as all the recent loans, even when the bonds were nominally internal obligations—have been placed abroad, their service is a direct charge against the trade balance of the Republic.—" The Economist," August 20, 1927.*

The export of capital from Great Britain to the continent of Europe can not be justified on the pretexts that have been brought forward in favour of the export of capital to the new lands of the colonial world. The only possible excuse could be the creation of "buying "markets," but the demand for British goods on the continent of Europe expands only to the extent to which goods can be borrowed from Great Britain.

Reviewing the exports of goods from Great Britain during the first quarter of 1927, a special correspondent of *The Times Trade and Engineering Supplement* wrote in that journal on May 28, 1927, as follows:

> The most striking change occurred with Germany, who

absorbed 5·6 per cent. of the whole, which proportion represented a rise from seventh to fourth place by virtue of very heavy purchases of semi-manufactured cotton and woollen goods.

The explanation of that increase in the exports from Great Britain to the continent of Europe was provided by *The Economist.* In the issue of November 26, 1927, it was pointed out that in the first quarter of 1927 loans to the continent of Europe were £12 millions, whereas the average of loans for *each of the complete years* from 1922 to 1926 was only £20 millions or an average of £5 millions for a quarter. *The Economist* wrote:

> The relative increase in British loans to Europe is readily explained. Europe needs capital, and is ready to pay for it. The movement began with the acceptance of the Dawes' scheme in 1924, and since the beginning of that year we have lent Germany nearly £25 millions.—*P. 918.*

The export of capital from the industrial countries of Europe to the colonial world——except to the extent of the goods sent out to effect the export of the capital——have not been productive of genuine buying markets. It is impossible that the export of capital from the industrial countries of Europe to the colonial world should produce in the colonial world or anywhere else genuine buying markets. The buying power of the colonial world being the amount of its exports to the industrial countries of Europe, if the capacity of the colonial world to buy the products of the industrial countries of Europe is to be increased, it is indispensable that the imports of colonial products into the industrial countries of Europe should be increased.

If the imports of the colonial world into the industrial countries of Europe are increased to the amount of the exports of the industrial countries of Europe to the colonial world, there could be no exports of capital at all. It must clearly and firmly be borne in mind that exports of capital from the industrial countries of Europe to the colonial world take place only when the imports from the colonial world to the industrial countries of Europe fall short of the exports from the industrial countries of Europe to the colonial world.

The exports of capital from Europe is diametrically opposed to the expansion of the buying power of the colonial world. It is only by destroying the excess of exports over imports in the foreign trade of Great Britain—and it is that excess that is lent and constitutes the exports of capital—that countries like Australia or the Argentine can expand their power of buying and abandon their practice of borrowing British goods. If Great Britain will not increase her imports to the level of her exports, the republics of South America and the self-governing British dominions must continue to remain borrowers.

The exports of capital from the industrial countries of Europe to the colonial world—far from creating new markets for the manufactures of the industrial countries of Europe in the colonial world—is, as a matter of fact, causing the markets of the colonial world to be closed to the industrial countries of Europe.

Exactly as a country effects an export of capital by an excess of exports of goods and services, so a country pays interest on borrowings of capital by an excess of exports of goods and services. The Colwyn Committee on the National Debt and Taxation in Great Britain laid down that payments of interest upon borrowings of foreign capital took "the form of an export of goods and services, "which do not pay for any imports in return." If, therefore, a country that has borrowed capital from another country would pay interest on the capital that it has borrowed, it must endeavour to create an excess of exports of goods and services or a favourable balance of trade.

Now, as already explained, the exports of the colonial world to the industrial countries of Europe are dependent upon the capacity of the industrial countries of Europe to absorb the products of the colonial world, namely, foodstuffs and raw materials. The capacity of the countries of the colonial world to pay interest on their borrowings is, therefore, regulated by the capacity of the industrial countries of Europe to import foodstuffs and raw materials from the colonial world.

Since it is an excess of exports that the debtor countries of the colonial world require to effect payments of interest to Great Britain and the other creditor countries, the debtor countries of the colonial world have the opportunity of effecting an excess of exports either by an increase of exports or by a decrease of imports. The poverty of the masses of the peoples of Great Britain and the other industrial countries of Europe is a barrier to the expansion of the exports of the debtor countries of the colonial world. Therefore, the debtor countries of the colonial world have no alternative but to adopt a policy of reducing imports.

High protective tariffs are—rightly or wrongly—believed to be a thoroughly effective means of reducing the imports of goods into a country, and most of the countries of the world have imposed high protective tariffs upon imports of goods. So long as a favourable balance of trade is the economic objective of foreign trade, the imposition of protective tariffs for the restriction of imports might be adopted by a country that requires an excess of exports either for the purpose of exporting capital or for the purpose of paying interest on borrowed capital. The pressure to export capital can, however, never be so severe as the pressure to pay interest on borrowed capital, and it is, surely, a profoundly significant fact that the highest tariff walls in the world are in those countries that are the most heavily indebted to other countries.

The United States of America is today a large exporter of capital, but until the outbreak of the World War in 1914 the United States of America was a debtor country. It was as a debtor country that was continually experiencing grave difficulties in making payments of interest on its borrowings of capital from Great Britain that the United States of America adopted a Protectionist tariff policy.

The self-governing British dominions stand at the head of the debtor countries of today, and every one of them, without exception, maintains very high tariff walls. Canada has the doubtful distinction of possessing the highest tariff wall in the world. Canada is closely followed by Australia. Canada and Australia are the two most heavily indebted countries in the whole world, except Germany. The indebtedness of Germany is due solely to the Reparations.

The next group of countries in the list of debtor countries is the republics of South America, and the republics of South America have built up some of the highest tariff walls in the world.

India did not possess the power to impose high duties upon imports of goods until after 1919, when, by an Act of the Parliament of Great Britain, a measure of self-government was granted to the people of India. Since fiscal freedom has been granted to India the Legislative Assembly has imposed protective duties upon imports of steel and other goods into India. India is a country in which hundreds of millions of pounds sterling of British capital have been invested, and India maintains a large excess of exports in order to meet its interest obligations in London.

The Crown colonies of the British Empire are ruled by the Secretary of State for the Colonies in Great Britain and have, therefore, no power of imposing protective tariffs upon imports of goods without the sanction of the Secretary of State for the colonies.

Germany, Austria, Czechoslovakia, Hungary and all the other liberated territories of the former Austro-Hungarian Empire are under an obligation to pay Reparations, and to every one of those countries an excess of exports is necessary to the payment of Reparations. Every one of the liberated territories of the former Austro-Hungarian Empire have, moreover, borrowed loans from the United States of America and other countries, and, therefore, needs a surplus of exports in order to pay interest on the loans.

An excess of exports is necessary to Germany, Austria, Czechoslovakia, Hungary, Poland, Rumania and Yugoslavia to the extent of their Reparations or interest payments. The small Baltic States are in an identical position. Every one of the countries of Central, Eastern and South-eastern Europe has thus been forced to pursue a policy of increasing exports and decreasing imports.

None of the economists and financiers who attended the World Economic Conference of May, 1927, could have been entirely blind to the fact that the position of a creditor country is entirely different from that of a debtor country or of the fact that the reduction of imports and the expansion of exports—in order to create a surplus of exports for the payment of interest—is obligatory upon a debtor country.

Nor could the economists and the financiers have denied, if they had been challenged, that, assuming that tariffs restricted imports—as the World Economic Conference unanimously decided—the imposition of tariffs for the restriction of imports was, at least, one means by which a debtor country would be entitled to find the means of meeting its interest obligations. The economists, financiers and businessmen who constituted the various delegations to the World Economic Conference, nevertheless, drew no distinction between debtor and creditor countries. Mr. W. T. Layton, a member of the British delegation, selected the fiscal policies of Austria, Czechoslovakia, Hungary, Rumania and Yugoslavia for attack, wholly ignoring the fundamental fact that they were debtor countries and, therefore, were bound to seek a favourable balance of trade at any cost.

One inevitable reaction to the export of capital from Great Britain and the other industrial countries of Europe to the colonial world must be a tendency in the debtor countries to restrict imports of goods and increase exports of goods. Free Trade Great Britain, by exporting capital to the self-governing British dominions, India, the republics of South America and countries on the continent of Europe has thus, unconsciously, been the chief architect of the tariff walls that the economists, financiers and politicians in Great Britain and the other industrial countries have so freely denounced.

That fact was stated with some ingenuousness in a leading article in *The Times*. The vast payments of interest that the governments of the self-governing British dominions have to make compel them to impose heavy taxation, and one of the principal sources of taxation is the customs revenue. Commenting on the proceedings of the annual meeting of the Association of British Chambers of Commerce that was held on April 29, 1927, *The Times* wrote:

> A resolution was carried urging the Government to take steps to remove existing barriers and declaring that the solidarity of the Empire could only be maintained and its development assured by the freest possible interchange of the products and manufactures of its constituent parts.
>
> It was decided to prepare a resolution embodying this principle for submission to the coming Congress of Chambers of Commerce of the Empire to be held in South Africa, but the delegates must know perfectly well that the ideal of free trade within the Empire is quite unattainable in present conditions, *if only because the Dominions need the revenue brought in by duties.*

With every increase in the investments of British capital in foreign countries, the quantity of goods imported into Great Britain in payment of interest must increase. In other words, in each year an increasing part of the imports would be received as "tribute" or as a gift. Therefore, unless the capacity of the masses of the people to consume imported goods increases in the same proportion, the quantity of goods exported in payment of imports would suffer reduction year after year, giving rise to increasing unemployment. In other words, the only possible effect of the export of capital from the industrial countries of Europe must be the narrowing of oversea markets for the manufactures of the industrial countries of Europe.

CHAPTER XIV

THE DEVELOPMENT OF THE NEW LANDS—III

The Harvest that has Sprung from the Seed of Exported Capital

THE export of capital from the industrial countries of Europe, it has already been seen, has been justified on the ground that the capital so exported leads to the production of foodstuffs and raw materials that are badly needed in the industrial countries of Europe.

In the first place, the industrial countries of Europe have repeatedly proved that they are unable to absorb the production of foodstuffs and raw materials of the new lands, and the further expansion of the production of foodstuffs and raw materials in the new lands can have no practical interest whatever for the industrial countries of Europe.

In the second place, the capital that is now being exported to the new lands of the colonial world is not being put to the purpose of developing the production of foodstuffs and raw materials but into the production of manufactured goods that are entering into competition with the manufactured goods of Great Britain.

The most remarkable development of the present century is the rapid industrialization of the new lands of the colonial world. It is noteworthy that the export of capital from the industrial countries of Europe to the United States of America in the nineteenth century was justified on the ground that the export of capital to the United States of America was essential to ensure the expansion of the production of foodstuffs and raw materials in the United States of America in the interests of the industrial countries of Europe. Professor Maynard Keynes, it has been seen, attributed the (supposed) prosperity of the industrial countries of Europe before the World War of 1914–18 to the fact that the industrial countries of Europe drew large supplies of foodstuffs and raw materials at a cheap price from the United States of America.

If the capital that Great Britain exported to the United States of America contributed to the development of the United States of America, the result has been completely disastrous from the point of view of the capitalists in Great Britain, for Great Britain knows no more formidable competitor today in the markets of the world than the United States of America.

The seed sown in Canada, Australia, South Africa and other parts of the Empire is now commencing to bring forth the same harvest as that which has come forth in such abundance from the seed sown in the United States of America in the nineteenth century. Into the Dominion of Canada British capital has been poured under the pretext that the production of foodstuffs and raw materials in that country is indispensable to the economy of Great Britain. Canada is today one of the leading manufacturing countries of the world.

In the United Kingdom it is still customary to regard Canada principally as an agricultural country. But while its agricultural development is proceeding at a rapid pace its industrial production has made great strides.

In 1925 the value of the field crops was $1,153,394,000. The net value of industrial production in the same year was $1,311,025,000. *The strength of Canadian industry, therefore, must not be overlooked when considering the Dominion as a market for British goods.*

In Canada, therefore, the British manufacturer has one of the most difficult markets (Pp. 9–10).

Canada is the second largest manufacturing country in the British Empire, *and its exports to the other Dominions consist largely of manufactured goods.*

Its exports of manufactured goods and partly manufactured goods to the United States exceed the exports of raw material.

The number of manufacturing establishments in Canada in 1923 was 22,642 and the total invested capital was $3,380,322,000. This is the latest year for which detailed figures are available, but the position today is about the same or a little better.

The manufacturing industries have been built up largely by Canadian capital.

The net value of production or the value added by manufacture was $1,311,000,000. The cost of materials was $1,470,000,000. The gross value of manufactured products for the year was therefore $2,781,000,000.

The growth of Canadian industry in recent years has perhaps not been given as much attention by British manufacturers, in relation to their own export trade, as is desirable (P. 50).—Report on Canada as a Market for British Goods by Mr. F. W. Field, his Majesty's Senior Trade Commissioner in Canada and Newfoundland, 1926.

It is thus the deliberate verdict of a thoroughly competent inquirer that Canada, upon which Great Britain has poured over £1,000 millions of capital, is "one of "the most difficult markets for British goods." It will be noticed that the value of the industrial production of Canada is greater than the value of its field crops. Furthermore, while thousands of millions of dollars of Canadian capital is going into the industrial development of Canada, there can be no sense in arguing that Canada needs capital from Great Britain or the United States of America for the development of her agricultural resources. Why does not Canadian capital go into the development of Canada's agricultural resources?

Canada is rapidly passing from an agricultural to a highly industrialized country. That is decisively shown by the fact, that half the population of Canada is already urban and that unemployment among the industrialized working classes is one of the gravest economic problems with which Canada is faced.

Canada, although it has a larger population to-day than in 1913, is not only importing less from Great Britain today than in 1913, as shown in the previous chapter, but is also entering into competition with Great Britain in India, the other dominions (as pointed out by Mr. Field) and the Crown colonies. The imports of

Canadian motor cars into India——freight rates from Canada to India are higher than from Great Britain to India——afford a conspicuous example.

The most startling fact, however, is that the manufactures of Canada are actually entering into competition with the manufactures of Great Britain in Great Britain precisely at the time when Great Britain is establishing safeguarding duties to protect the home market against imports of manufactures from overseas.

The following is taken from a news article in *The Times* of May 9, 1928:

> Exhibits of the products of Canada, including over a dozen manufacturing lines, are to appear this year at most of the exhibitions in Great Britain.
>
> The Canadian Government has set aside £60,000 this year for this purpose.
>
> Among the manufactured goods which are to be shown are the following: Motor-cars, bicycles, agricultural machinery, tools, hardware, machine tools, various types of machinery, gramophones, pianos, various novelties, including electrical appliances, motor-car tyres, general rubber goods, electric washing and sewing machines and possibly furniture.
>
> Already there is a large export of rubber goods from Canada to Great Britain.

The most disagreeable fact in the industrial development of Canada from the standpoint of the capitalists of Great Britain is that Canada is not merely manufacturing and endeavouring to sell precisely the goods that Great Britain manufactures but that, precisely like Great Britain, Canada is also manufacturing goods out of imported raw materials. Rubber is not grown in Canada, and, in exporting goods manufactured of rubber Canada is challenging the claim that Great Britain had established in the nineteenth century as "the workshop of the "world."

Canada is rapidly passing from being an importer of manufactured goods to being an importer of raw materials. Referring to the industrial development of Canada, Mr. Keith Morris writes:

The most outstanding and recent example in this connection is the utilization on a grand scale of the water-power of the Saguenay River, an enterprise in itself and one of the marvels of modern industrial development, *and the establishment in connection with that power production of a gigantic plant* for the smelting and manufacture of aluminium, *largely from bauxite imported from British Guiana.*—"*The Financial Times,*" *June 10, 1927.*

Much of the capital that is being imported into Canada now is going directly into the establishment of manufacturing industries. To quote Mr. Keith Morris again:

A development of significance is the newly-awakened interest of capitalists in the latent capacity of Canadian urban industrial enterprises. . . .

The result is seen in the large and increasing flow of capital into Canada for the establishment of new enterprises and the expansion of existing ones. . . .

Looking at the situation as a whole, it can be said at once that Canada, as a basically agricultural country, is now emerging also as *an industrial country of international importance.*

Mr. Morris's reference to Canada as a "basically "agricultural country" affords an example of the irresponsible use of phrases. Every country is "basically an "agricultural country," because in every country—not excepting Great Britain—agriculture is the greatest industry. The industrial production of Canada (excluding the value of the raw materials used) as already shown, is greater than the value of its field crops. The total agricultural production of Great Britain (£225 millions or $1,125 millions) is very nearly equivalent to the value of the field crops of Canada, namely, $1,153 millions.

The industrialization of Australia is being pressed forward as vigorously as that of Canada. It is frankly admitted that the population of Australia is drifting from the country into the towns. The population of Great Britain is urban to the extent of eighty per cent., and the population of Australia is already urban to the extent of between sixty and sixty-five per cent. The population of the vast Commonwealth of Australia is concentrated today in a handful of cities. In 1928 Melbourne, following Sydney, reached a million inhabitants.

The entire population of the Commonwealth is but slightly more than 6,000,000, practically all of the white race and possibly 95 per cent. of British origin.

Nearly a third of this population is found in the cities of Sydney and Melbourne, which together account for 2,000,000, while 45 per cent. resides in the capital cities, which include Sydney, Melbourne, Brisbane, Adelaide, Perth, and Hobart.

There are relatively few other cities of any size and most of these are located on or near the coast—thus despite the size of the country its centres of population are readily reached.—*Trade Commissioner E. G. Babbitt, U.S. Commerce Reports, June 27, 1927.*

The tendency of development in Australia is revealed by the fact that Australia has begun to import foodstuffs from the neighbouring Asiatic countries.

The Times of March 1, 1928, contained the following message from its Canberra correspondent:

Mr. Pratten, Minister for Trade and Customs, speaking in the House of Representatives during the debate on the motion of censure, said twenty-two new industries had been established in Australia in the earlier part of the Ministry's regime.

Within the last 18 months £7,000,000 of new capital had been raised for new industry, half in Australia and half overseas, including £500,000 for the textile industry. As a result of his visit abroad, Mr. Pratten said he expected that £5,000,000 would be invested in Australia.

Important projected developments in the iron and steel industry would shortly be announced. Of £7,000,000 worth of iron and steel products there was imported about £5,500,000 worth which could not be made in Australia with the present plants.

Great progress had been made in the woollen industry, which was now using annually 200,000 bales of the Australian clip. No natural national industry like this should be allowed to be smashed by foreign competition.

On March 9, 1928, *The Times* published the following from its Sydney correspondent:

Dorman, Long, and Co., Limited, and Baldwins, Limited, of Great Britain, and Howard Smith, Limited, steamship owners, are joining the Hoskins Iron and Steel Company for the purpose of developing the iron and steel industry at Port Kembla.

The new company will have £5,000,000 capital, *and contemplates the erection of one of the most up-to-date plants in the British Empire.*

In April, 1928, Sir Robert Horne raised a discussion in *The Times* on the failure of British motor-car manufacturers to supply the Australian market. Australia is, as a matter of fact, determined to establish a motor-car industry. Mr. H. E. Pratten, the Australian Minister for Trade and Customs, stated in an interview to the Press in London in June, 1927:

In my opinion, it is absolutely necessary, if only for defence purposes, that the motor-car engine industry should be developed within our own borders.—"*The Daily News,*" *June 17, 1927.*

The establishment of the motor car industry in Australia is being carried out with the aid of imported American capital.

American firms which have erected factories recently include the Ford Motor Works (which have not, however, found the experiment too encouraging), General Motors, and Studebaker's. . . .

The Goodyear Tyre Company is negotiating for a factory site at Aberfoyle and a Philadelphia knitting mill is completing inquiries to the same end.—*Message, dated May 19, 1927, to "The Times" from its Sydney correspondent.*

The Balfour Committee reported:

In several British Dominions the tendency to foster local manufacture of goods has undoubtedly been strengthened by the experience of war.

In Canada, there has been a remarkable growth of manufactures; while in Australia great efforts are being made to develop industries, and in particular woollen manufacture.

In India, which previously depended on importation for most kinds of industrial products, the war called into being a number of industries to supply the gap caused by the cutting off of former sources of supply. The tendency to develop home industries has undoubtedly come to stay.

In South America, Brazil has developed a number of industries (including textiles and boots and shoes), the annual value of the products being estimated in the Survey at £45 millions.

In Argentina the volume of industrial production is estimated to be from two to three times the pre-war output.

In Chile it is stated that "in almost every branch of industry "attempts are being made, usually with success, to produce in the "country goods that have hitherto been imported." Among the examples mentioned are cement, where the growth of the local industry has reduced imports from 144,000 tons to 34,000 tons, and wire nails, the imports of which are now entirely displaced by home manufactures.

It is impossible, in the absence of general production statistics, to estimate the total increase of manufacturing industries which has taken place since the beginning of the war in countries in which such manufacture had previously been comparatively undeveloped, but the general tendency may be illustrated by the following figures with regard to certain industries and countries.

The number of cotton spindles in Japan, China, India and Brazil in 1913 was about 10 millions; by 1924 the number had risen to nearly 18 millions.

Between 1913 and 1922, the number of cotton power looms in India and Japan rose from 120,000 to 200,000.

The annual production of steel just before the war in Japan, China, India and Australia was 360,000 tons. In 1922, it was 858,000 tons.—"*Survey of Overseas Markets*," *P. 10.*

The growth of manufacturing industries in the self-governing British dominions has been lamented by *The Times* in language that is unmistakable in meaning, despite the most careful selection of phrases:

The decision of the self-governing British Dominions not to be content to remain "hewers of wood and drawers of water" is not a passing phase but a deep-rooted determination based on a natural desire to take a more prominent place among the nations than is possible to any country solely dependent on primary production.

It is very important that there should be no misapprehension on this point, because any campaign undertaken with the object of convincing the Dominions of *the error of their ways* is not only doomed to failure but may easily impair the harmonious relations now existing and may sow the seeds of future friction. . . .

The movement towards protection for essential secondary industries is not confined to Australia; last week attention was drawn to Mr. Coates's declaration in New Zealand; India, as our columns have revealed for a long time past, is making steady progress with her protective policy, and South Africa has embarked on the same course. *Unfortunately, the movement comes at a time when British manufacturers are hard put to it to maintain their trade abroad. . . .*

It is not for the people of this country to tell the self-governing Dominions what course they should pursue in fiscal matters, but it is permissible and right to urge the statesmen there to consider the present position very carefully indeed.

This paper has always endeavoured to present Imperial questions impartially; it has not been concerned to obtain undue advantage for any single part of the Empire, but to support any policy that seemed best in the interests of the whole, *and in that spirit now it is urged that Empire statesmen should ask themselves whether everything possible has been done to encourage trade within the Empire and to prevent Great Britain being adversely affected by their present course.* They can not be blamed for protecting certain of their secondary industries, but the fact that they find it necessary to do so makes it imperative to provide that these as far as possible shall be built up at the expense not of British but of foreign trade.—"*The Times Trade and Engineering Supplement,*" *May 28, 1927.*

Speaking in the House of Commons on March 14, 1928, Mr. Amery, the Minister for the self-governing British dominions, admitted that in every self-governing dominion, especially in Canada, there had been a great step forward in the production of manufactures.

That is the harvest that the export of capital from Great Britain to the self-governing British dominions has brought forth. It is most certainly not the harvest that believers in the export of capital from Great Britain promised the British people when the capital was flowing out. Sir George Paish classified the undertakings in which British capital had been invested in countries overseas into various groups in the paper on British Foreign Investments that he read to the Royal Statistical Society on June 15, 1909. Referring to the "commercial and industrial companies," in which British capital had been invested, he said:

It must not be supposed that this income is derived from manufacturing firms competing with British traders.

One of the most noteworthy characteristics of the British investor is his objection to place capital in any enterprise, *or in any country for the matter of that, the development of which appears to be against the interests of the Motherland.—Journal of the Royal Statistical Society, Volume LXXII, P. 471.*

In 1927 Sir George Paish published a book, in which he recorded the results of the investment of British capital in Canada and Australia in the following terms:

> At the present time Canada is placing every possible impediment in the way of Great Britain and of Europe making payment to her in kind for her products. It is true that Canada grants a preference to British goods, nevertheless the duties upon these goods are still high and greatly interfere with the free development of trade between Great Britain and Canada.
>
> And what is true of Canada equally applies to Australia. . . . Australia is sharing in the work of creating impediments to trade.—"*The Road to Prosperity*," *Pp. 27–9.*

The Union of South Africa is also engaged in the development of manufacturing industries, and the manufacturers in Great Britain view their own prospects in the self-governing British dominions with growing feelings of disgust.

CHAPTER XV

THE INVESTMENTS OF BRITISH CAPITAL IN FOREIGN LANDS

An Examination of the Claim that It Produces an Income in Goods

WHEN in July, 1914, war broke out in Europe, Great Britain, France and Germany were the three countries that held the largest investments of capital in foreign lands.

Under the Treaty of Versailles Germany lost all the investments of capital it had made in its own colonies and in other lands. The investments of French capital were chiefly in Russia, and the repudiation of the debts of the Tzar's Government and the seizure of foreign property in Russia by the Bolshevists shattered the whole fabric of investments of French capital in foreign lands.

The investments of British capital in foreign lands alone, therefore, afford material for an examination of the claim that the investments of capital that a country makes in foreign lands brings it an income in the form of goods or, in other words, provides the country with the means of paying for a large part of its imports.

The imports of Great Britain consist almost entirely of goods. The imports of services into Great Britain are small and may be left out of consideration, especially as there are certain services that Great Britain exports to other countries that are of much greater value but are not taken into account in the official figures, upon which the analysis made in this chapter is based.

Whether Great Britain is dependent or not upon the income from the investments of British capital in foreign lands for the payment of any part of the imports of goods into Great Britain can be conclusively established by a very simple sum in arithmetic.

If the amount of the imports of goods exceeds the amount of the exports of goods and of services, obviously the difference is paid out of the income from investments of capital in foreign lands. The extent of the difference would show the extent to which the income from investments of capital in foreign lands is drawn upon for the payment of the imports of goods into Great Britain.

If the amount of the imports of goods falls short of the amount of the exports of goods and services, there can be no question that the income from investments in foreign lands is not used for the payment of imports of goods into Great Britain.

The exports of goods from Great Britain are always less than the imports of goods. It is, therefore, possible further to simplify the facts for the purpose of the analysis by setting the exports of goods against the imports of goods and thus leaving only a net balance of imports of goods to be set against the exports of services.

In *The Board of Trade Journal* of January 29, 1925, the total foreign trade of Great Britain for seven representative years was made the subject of an analysis.

The years selected were:

Pre-War	Post-War
1907	1920
1910	1922
1913	1923
	1924

In the Table on the next page the net balance of imports of goods (including bullion or the precious metals) is set against the total amount of the services, and the results obtained are as follows:

(1) In the years before the World War of 1914–18 the net balance of imports of goods was paid for by the

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(1) In the years before the World War of 1914–18 the net balance of imports of goods was paid for by the

exports of services except to the extent of £20 or £30 millions.

(2) In the years since the World War of 1914–18 the exports of services paid for the net balance of imports of goods entirely in 1920 and in the other selected years except to the extent of £21 millions in 1922, £48 millions in 1923 and £156 millions in 1924.

TABLE

THE EXTENT TO WHICH THE ADVERSE BALANCE ON THE VISIBLE TRADE OF GREAT BRITAIN IS MET OUT OF THE EXPORTS OF SERVICES

Year	Excess of Imports of Merchandise and Bullion	Total Value of Services	Favourable Balance	Adverse Balance
		In millions of pounds sterling		
1907	142	120	—	22
1910	159	125	—	34
1913	158	129	—	29
1920	343	395	52	—
1922	171	150	—	21
1923	203	155	—	48
1924	341	185	—	156

Before the World War of 1914–18 the imports of goods into Great Britain amounted to £700 millions per year, and sums of £20 or £30 millions per year are mere trifles in comparison with the value of the total imports of goods per year. If it was only to that extent that before 1914 the imports of goods into Great Britain were paid for out of the income from investments of capital in foreign countries, the income from investments of capital in foreign countries was of little consequence to the economy of Great Britain before 1914. It was, surely, unnecessary to have sent £6,000 millions of capital for investment in foreign lands (attended as that was with all the risks that are so well known) to produce so small a result.

The total imports of Great Britain since 1918 are, approximately, £1,100 millions, and sums of £21 and

£48 millions per year are mere trifles compared with the amounts of the total imports of goods in each year.

Still more remarkable are the facts of the position in 1920—the "boom" year. In that year the exports of services actually exceeded the amount of the net balance of imports of goods. Thus, in 1920, Great Britain did not draw upon its income from investments of capital in foreign countries at all. The exports of services in 1920 exceeded the net balance of imports of goods. Therefore, in 1920, Great Britain was obliged to give a part of the exports of services—no less than £52 millions—on credit to other countries and re-invest the whole of the income from investments of capital in foreign lands.

In 1924, according to the analysis in *The Board of Trade Journal* of January 29, 1925, Great Britain drew upon its income from investments of capital in foreign lands to the extent of £156 millions. That figure contained an error, and the correct figure was published in *The Board of Trade Journal* of January 27, 1927. The figures of the foreign trade in the year, 1924, as corrected, are as follows:

Net adverse balance of imports of goods and bullion	£324 millions
Estimated net revenue from services	215 "
Net deficit	109 "

Now, before proceeding to the analysis of the position in 1924, 1925 and 1926, it is necessary to explain how it was that during so long a period as between 1907 and 1923, the debtors of Great Britain were able to make the monetary payments of interest without shipping goods to Great Britain.

When a debtor country raises a loan in a creditor country—when, for example, Australia raises a loan in Great Britain—the debtor country might (but need not) import goods to the value of the loan. It might use the money so borrowed for making any payments it has to make in the lending country. Thus, Australia might borrow £5,000,000 in London and use the money for payments of interest in Great Britain. Naturally, payments of interest in Great Britain with money borrowed in Great Britain can not give rise to exports of goods from Great Britain. The payment of interest on loans raised in Great Britain out of funds obtained by the raising of fresh loans in Great Britain is the mere accumulation of compound interest by Great Britain.

That that is precisely how interest payments have been made by debtor countries has been admitted by several writers, but by none more clearly than by Mr. A. Emil Davies in *Investments Abroad*, which was described in the City Notes of *The Times*, in an entirely eulogistic review, as " a notable book, written by a financial expert." Mr. Davies writes:

> I have said that the only means in which the debtor country could pay the creditor country ultimately was by shipping commodities or rendering services. This is the case, but it can be temporarily obscured if the lender or the investor, instead of taking payment in that form goes on investing his income.
>
> This means that instead of demanding payment in commodities, he (or some of his fellow citizens) lends further sums equivalent to what was due.

In a chapter with the challenging title, " Do Creditor " Nations Pay Their Debtors' Interest? " Mr. Davies drove home the facts.

> The cynic who surveys the history of foreign lendings may be pardoned if he comes to the conclusion that, broad and long, the borrowing nations of the world pay interest on loans just about to the extent that their creditors advance them the wherewithal to do so. . . .
>
> The net result over a period of years is that as much foreign money flows in as goes out nominally as interest, and so long as this process goes on, every one is happy—the investor who gets his interest (literally *his*, only he does not know it), the bankers who place the numerous loans at a quite adequate remuneration, and above all, the politicians who eventually get the rest of the money, or are relieved of the necessity of parting with what they have collected in taxes, the new loans having provided the necessary foreign exchange.

"The fact is," says Mr. Davies, "that hardly any of "the borrowing countries pay their way." Nevertheless, Mr. Davies is a firm believer in the policy of exporting capital and re-exporting interest. *The Times* did not think that Mr. Davies's conclusions were sufficiently startling to deserve even mention, and the export of capital was ingenuously described in the review of Mr. Davies's book in *The Times* as "this difficult, fascinating "but *profitable* business" of lending money to other countries and then, according to Mr. Davies himself, lending them year after year the money with which to pay the interest!

The conclusions at which Mr. Davies has arrived are based upon the unchallengeable evidence of the statistics of the foreign trade not only of Great Britain but also of the debtor countries. With the exception of India and the British Crown colonies none of the debtor countries possesses an adequate annual excess of imports, and without an adequate annual excess of exports no debtor country can meet payments of interest in goods. Every debtor country (except India and the Crown colonies) is, therefore, forced to fall back upon the payment of interest out of fresh borrowings—in other words, to allow the accumulation of compound interest on its borrowings. What happens to the excess of exports of India and the Crown colonies is explained in a later chapter.

The deductions made in this chapter from the statistical evidence and the deductions made by Mr. Davies also from the statistical evidence are confirmed by the most elementary examination of all the facts upon a purely arithmetical basis. As indicated in an earlier chapter, it is an arithmetical impossibility for a country simultaneously to absorb an income from investments of capital in foreign lands and to continue to export capital. If the one is to be effected the other must be held in abeyance.

Great Britain as an exporter of capital, is an international money-lender. But Great Britain is not merely a money-lender, Great Britain is also a producer and an exporter. If, therefore, a correct parallel is to be drawn between Great Britain and an individual money-lender, it must be supposed that the money-lender is also a producer and has thus two independent sources of revenue.

Now, if the income of the money-lender as a producer is sufficient for his expenditure, he would be consistently re-lending all the interest that he receives from his debtors.

If the income of the money-lender as a producer is in excess of his expenditure, he would be consistently re-lending not only the whole of his income as a money-lender but also a part of his income as a producer. That was exactly what Great Britain did in 1920.

If the income of the money-lender as a producer falls short of his expenditure, he would draw upon his income as a money-lender, and the statistics quoted in this chapter show that it is only to a very trifling extent that Great Britain drew upon her income as a money-lender in six out of the seven selected years.

Thus, the analysis made in this chapter shows that a creditor country may lend:

(1) The whole of its income from investments in foreign lands and some part of its fresh production, or

(2) The whole of its income from investments in foreign lands only, or

(3) The whole of its income from investments in foreign lands, less some part of it.

Those are the only three situations in which a creditor country that is continuing to lend money (or export capital) could, in any circumstances, be placed, and in any one of those three situations the income from investments in foreign lands must necessarily be lent to foreign countries either wholly or partly.

In other words, the collection in goods of the interest on investments of capital in foreign countries can not be effected unless further lending is discontinued. The private money-lender frankly re-lends the interest he collects from his debtors, and it is necessary very firmly to grasp the truth that, when a country turns money-lender, it subscribes to the same laws of arithmetic.

It might be argued that Great Britain collects its income from investments in foreign lands in the form of foodstuffs, raw materials and other goods and lends the equivalent in the form of manufactures and that, although, arithmetically, Great Britain might appear to be only re-lending its income from investments in foreign lands, Great Britain might, in fact, be importing income from investments in foreign lands in one class of goods and making fresh investments in other classes of goods. The facts do not leave scope for such an argument. The classes of goods given on credit are directly exchangeable into the classes of goods imported, and the countries that import the classes of goods in which exports of capital from Great Britain are generally made are the very countries that supply the foodstuffs and raw materials that Great Britain regularly imports on a large scale.

CHAPTER XVI

THE COLLECTION OF INTEREST DURING THE WAR

Financial Fictions Replaced by Economic Realities

THE years of the World War of 1914–18 were excluded by the Board of Trade in the analysis of the foreign trade of Great Britain examined in the previous chapter. The events of the years 1914 to 1918 are usually ignored on the ground that they were "abnormal." A scientific inquiry into economic problems must prove fruitless unless the facts of both supposedly normal and supposedly abnormal periods of time are examined and explained. The period, 1914 to 1918, is of vital importance in the investigation of economic laws.

Two conditions distinguished the period of the World War of 1914–18 from all previous periods. Firstly, the creditor countries, Great Britain, France, Germany, Holland, Belgium and Switzerland stopped the giving of monetary loans to the debtor countries, and secondly, in Great Britain and France there was an enormously expanded demand for imports of goods from the debtor countries.

Mr. Hartley Withers wrote of the period of the World War of 1914–18:

> Nobody can come to London for loans except the British or French Governments, or, occasionally, one of our colonies. Any other borrower is warned off the field by a ruthless Committee whose leave has to be granted before dealings in new securities are allowed on the Stock Exchange.—"*International Finance*," P. 95.

Thus, during the World War of 1914–18, the debtor countries were forced to pay interest upon their borrowings of capital from the industrial countries of Europe by shipping goods to the industrial countries of Europe. Simultaneously, Great Britain and France developed the capacity to import goods from the debtor countries. The outbreak of the World War in August, 1914, artificially expanded the capacity of Great Britain and its allies to increase their imports. Until the end of July, 1914, the economy of Great Britain and its allies——as much as the economy of the enemy countries——could not absorb imports even equal to the exports.

The war altered those conditions forthwith. Thousands of reservists had been called up from peaceful occupations to endure the terrific strain of active service in the army and the navy. However ill-fed or ill-clothed those men might have been in peace time, the severe demands of war made it indispensable that they should have excellent rations of food in abundance, good uniforms, overcoats, boots and many comforts to which they were strangers in their homes.

Hundreds of thousand of recruits were enrolled in the new armies. Many of the men——coming from sedentary occupations——developed larger appetites in the training camps, while the hardy workmen who answered the call to the colours had no longer to think of the morrow's fare when they sat down to a meal. The separation allowances given to wives of the enlisted men often exceeded the house-keeping allowances given them in times of peace by their husbands, and there was thus in many a home the means of buying more meat, bread and butter than had been consumed before.

Above all, there was an incessant demand for raw materials for the manufacture of equipment for the army and the navy and the production of munitions of war. The naval yards were working their hardest, rapidly reinforcing the Grand Fleet and its supporting fleets, upon whose command of the seas the issue of the whole conflict depended. The import of foodstuffs and raw materials, obviously, had greatly to be increased to meet the new demands of the country. Those demands increased with the expansion of the armies and the intensification of the attack upon the enemy.

The barrier to the expansion of the imports of foodstuffs and raw materials into Great Britain from its debtors in the colonial world is the lack of financial power among the masses of the people of Great Britain to increase their consuming power. The war, however, changed the whole economy of Great Britain. The Government became the grand provider of the people, and millions of men and women were given the power to enjoy a plenty of the necessaries of life that had been beyond their dreams in times of peace.

Production was kept panting behind consumption between 1914 and 1918, and production implied imports, more imports and still more imports of goods. Thus, although the import of luxuries and dispensable articles was, at first, restricted and, subsequently, almost entirely barred, the imports of Great Britain steadily increased, and the exports from Great Britain steadily decreased. The following are the figures of the imports into Great Britain between 1914 and 1918:

Year	Value of Imports of Goods
1914	£601,161,000
1915	752,831,000
1916	850,940,000
1917	994,487,000
1918	1,285,206,000

The imports were drawn from the colonial world, that is, from Great Britain's principal debtors, which in 1914 included the United States of America. Although there was a great increase in prices after 1915, the quantities of foodstuffs and raw materials imported into Great Britain in each of the years after 1915 were much larger than the quantities of foodstuffs and raw materials imported before 1915. During the World War luxuries and highly priced articles were not imported into Great Britain. Therefore, even though the prices of foodstuffs and raw materials had greatly risen, the total value of the imports into

Great Britain would not have risen unless the quantities of foodstuffs and raw materials imported had risen.

Simultaneously with the expansion of imports of foodstuffs and raw materials from the colonial world there was a decrease of exports of manufactures to the colonial world, and, as a result, the debtor countries were able to accumulate large excesses of exports over imports and pay interest in goods for the first time in their history on borrowings from Great Britain. One country, the United States of America, completely wiped out its debts to Great Britain during the World War of 1914–18 and turned lender on a large scale.

The difference that the World War of 1914–18 made to the foreign trade of the debtor countries will be realized by a glance at the following figures, which give in millions of the unit of currency of each of six countries that were debtor countries in 1914 the amount of the excess of exports of goods and bullion. An excess of imports is indicated by the minus (—) sign.

Country	Currency	1914	1915	1916	1917	1918
Excluding Exports of Bullion :						
Argentine .	Pesos	80	276	206	169	300
India .	Rupees	480	523	780	808	789
U.S.A. .	Dollars	299	1,714	3,064	3,250	3,096
Including Exports of Bullion :						
Union of S. Africa .	Pounds	3	1	24	53	19
		1914–15	1915–16	1916–17	1917–18	1918–19
Canada .	Dollars	—148	303	474	568	296*
Australia .	Pounds	—3	—2	21	19	11

* Excluding bullion.

Gold is one of the principal exports of Canada, South Africa and Australia, and the production of gold was intensively developed during the World War of 1914–18 in order to provide Great Britain with the means of payment for imports from North and South America, Asia and the neutral countries of Europe.

It was not until after 1918 that the changes the World War had made in the economy of the debtor countries could be fully realized, but they were sufficiently manifest to an observer even in 1916. Mr. Hartley Withers, for example, in a book published in that year states that the increase in the prices of the products of the new countries facilitated the payment of interest by them on their borrowings.

Then came the war with a short sharp spell of financial chaos followed by a halcyon period for young countries, which enabled them to sell their products at greatly increased prices to the warring powers and so to meet their debt charges with an ease that they had never dreamt of, and even to find themselves lending, out of the abundance of their war profits, money to their creditors.

America has led the way with a loan of £100 millions to France and England, and Canada has placed 10 millions of credit at the disposal of the Mother Country.—"*International Finance*," *Pp. 72–3.*

It was not merely a rise in the prices of the foodstuffs and raw materials exported by the debtor countries during the World War of 1914–18, as Mr. Withers states, but an increase in the quantities of the foodstuffs and raw materials exported by the debtor countries and a great diminution in the quantities of the manufactures imported by the debtor countries that gave the debtor countries during the World War vast favourable balances of trade, instead of adverse balances of trade. The prices of manufactures rose in proportion to the increase in the prices of foodstuffs and raw materials. But whatever were the factors that provided the debtor countries during the World War with large favourable balances of trade, if the debtor countries had already been paying interest to Great Britain in goods, such an enormous difference in the money value of their balances of trade could not have produced so small a result as the payment to Great Britain of "debt charges with an ease that they had "never dreamt of."

Before the end of 1916 Canada had secured an annual excess of exports over imports of some $500 millions, that is, £100 millions, and even after allowing for the expenses of the Canadian Expeditionary Force—the cost of which in 1914 was met out of borrowings in Great

Britain——a loan of £10 millions does not go far to explain the purpose to which the £100 millions was put.

During the first two years of the World War, the masses of the people in Great Britain appeared to observers to enjoy an unaccustomed prosperity. The fact was so obvious that it could not be entirely ignored, and Mr. Hartley Withers is one of many writers who have recorded their impressions. Monetary experts have endeavoured to explain the apparent paradox by monetary theories.

In the early stages of the World War——certainly in 1915——the condition of the masses of the people must have been a great deal better than in 1913, because during 1915 the destruction of British production on the battle-fronts was not considerable, while Great Britain received from its debtors——absolutely as a gift for the first time ——over £200 millions of foodstuffs and raw materials, which, because of war conditions, were distributed among the people. Moreover, the demands of the war were being met not only out of the production that used, in times of peace, to be lent abroad but also out of fresh production.

There can be an increase of prosperity among a people only if there is an increase in the amount of the goods produced or imported into the country. From the beginning of 1915 Great Britain received in each year £200 millions' worth of goods more than Great Britain had received in any year before 1914——absolutely as a gift——and the production of Great Britain that used to be lent to other countries before 1914 was during the World War used either for the support of the population or for the prosecution of the war. Consequently, the waste of war was discounted to a considerable extent, and, while the destruction of British production on the battle-front in France was still limited, the condition of the people was bound to improve or, at any rate, was not likely to be very severely affected by the demands of the war.

Moreover, after August, 1915, Great Britain commenced exporting gold—thereby drawing upon the savings of production of past generations. Accordingly, a very large part of the £200 millions of goods received as interest payments went towards ameliorating the condition of the masses of the people of Great Britain.

Such amelioration was, indeed, indispensable to the conversion of a " C3 nation " into an A1 fighting force. Goods might be produced by men who have nothing better than bread and butter for their Sunday dinner, but battles can not be won by an ill-fed army, nor is hunger the best stimulus to increased production in a munitions factory.

More prosperity for the masses of the people——that is to say, a sufficiency of the necessaries of life——was the first condition of victory. That was one reason why the World War compelled the cessation of the re-export of interest. The masses of the people of Great Britain, on whom the winning of the war depended, could no longer be defrauded of the income from their " heritage " from former generations."

CHAPTER XVII

THE IMPORT OF INTEREST IN GOODS BETWEEN 1924 AND 1926

"*Alice in Wonderland Finance*" *in the City of London*

IN 1924 measures were taken by the Bank of England, which controls the financial operations of the City of London, to prepare the way for the re-establishment of the gold standard in Great Britain. One of the measures adopted by the Bank of England was to place an embargo upon loans of money to foreign countries.

Dr. T. E. Gregory thus describes the embargo placed in 1924 on the giving of loans to foreign countries:

> The Embargo on Foreign Issues was a perfectly "unofficial" censorship exercised by the Bank of England, originally adopted in 1924 with the view, so it was at that time said, of keeping the market clear for Reconstruction Issues. It was continued, however, until November, 1925.—"*The First Year of the Gold Standard*," *P. 83*.

The action of the Bank of England forced the debtor countries to send goods to Great Britain in 1924 and 1925 in payment of interest, and there naturally occurred in 1924 and 1925 a very marked increase in imports of goods into Great Britain, as the following figures show:

	Year	Imports	Exports	Excess of Imports
Previous to Embargo	1921	978,581,000	703,400,000	275,181,000
	1922	899,404,000	719,507,000	179,897,000
	1923	977,682,000	767,258,000	210,424,000
After the Embargo	1924	1,137,469,000	800,967,000	336,502,000
	1925	1,166,678,000	773,381,000	393,297,000

It will be noticed that the imports rose above the £1,000 millions limit only after the imposition of the embargo on loans to foreign countries.

In 1926 the coal strike imposed upon Great Britain the necessity of greatly increasing its imports. Great Britain was forced, for example, to import coal upon a very large scale. Moreover, there was a heavy decline in exports. The position is vividly shown in the figures of the foreign trade of Great Britain for the year, which were as follows:

Imports of goods	£1,117,298,000
Exports of goods	651,893,000
Net excess of imports of goods . . .	465,405,000

In comparison with 1923 the excess of imports was greater by no less than £254,981,000. It is admitted that in that year Great Britain had no "capital" to invest in foreign countries. As no loans were raised by Great Britain in foreign countries in 1926, the mighty excess of imports (against which perhaps not more than £200 millions of services could be set) could have been received only as interest on the investments of capital held by Great Britain in foreign lands.

Thus, an examination of the facts of the foreign trade of Great Britain during the three "abnormal" periods, namely:

(1) The World War, 1914–1918,
(2) 1924–26, when there was an embargo on loans to foreign countries in order to prepare the way for re-establishing the Gold Standard in Great Britain, and
(3) The Coal Strike, 1926,

shows conclusively that it is only during "abnormal" periods that Great Britain receives interest upon her investments in foreign lands in goods—that is, chiefly, foodstuffs and raw materials—and that, ordinarily, the quantity of goods received in payment of interest on investments of British capital in foreign countries is a mere trifle.

It is now necessary to explain how it was that during the two periods, 1924 to 1925 and 1926, the people of Great Britain were enabled to absorb larger imports than in previous years.

Between 1924 and 1926 there occurred in Great Britain a sharp fall in the price level, as a result of the decline of the export of goods on credit. The effect of a fall in the price level is, as already indicated, to increase the power of the wage-earning classes and the small salaried class——the masses of the people——to buy goods, whether produced at home or imported from abroad. In other words, the masses of the people were enabled to buy larger quantities of the necessaries of life——that is, the products of the debtor countries——than before.

That even a slight increase in the purchasing power of the working classes of Great Britain must add considerably to the imports of foodstuffs and raw materials from the debtor countries is shown by the investigations of Professor A. L. Bowley, one of the ablest statisticians of today. The following is from an article he contributed to *The Economist* of February 9, 1929:

In a previous article on this subject (*Economist*, November 17, 1923) an estimate was made of working-class expenditure on imported food, and this has been re-examined in the light of recent figures.

The method adopted is to divide the standard budget, used by the Ministry of Labour for the calculation of the cost of living index-number, into home and foreign produced goods, and to make allowance in detail for the changes of prices.

The result is to allocate 35 per cent. of the food expenditure to imports, as valued at the ports, and about 20 per cent. to the preparation thereof and their distribution to the consumer (Customs, excluded); thus 55 per cent. is spent on food of foreign or colonial origin and 45 per cent. on home-produced food.

The more general analysis given above relating to the relative values of home and imported food, unmanufactured and at wholesale prices, suggests that this 55 per cent. is an under- rather than an over-estimate. *Certainly more than half of working-class expenditure on food is on commodities originating abroad.*

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> *It may be estimated that of the aggregate of imports of all kinds retained in the United Kingdom, at least £350 millions (as valued at the ports) represents food, or ordinary necessaries or their essential materials, as consumed by the wage-earning classes* ; and, we may add, the competition of imports in nearly every material and article of food tends to keep down prices to the consumer.—*P. 277.*

Sir Josiah Stamp pointed out in the most definite terms in speeches in 1927 that the effects of the heavy fall in the price level, while money wages remained unchanged, were, firstly, to increase real wages or the purchasing power of the working classes, and secondly, to increase imports and reduce exports.

Addressing the Birmingham Chamber of Commerce on October 6, 1927, Sir Josiah Stamp said:

> The tendency is with an immobile wage level and a falling price level to make our exports grow less and our imports more.—*The Birmingham Chamber of Commerce Journal, November 15, 1927, P. 863.*

It was inevitable, therefore, that, between 1924 and 1926 the debtor countries should have secured an opportunity for pouring goods into Great Britain in payment of interest and that the balance of trade of Great Britain should show that the people of Great Britain were really drawing upon the income from the investments of British capital in foreign lands.

In 1926, the buying power of the masses of the people was contracted by the increase of unemployment caused by the coal strike. But the effects of the coal strike were felt less by the masses of the people than by the capitalist class, who were compelled to maintain production in mills and factories at a heavy loss, continuing to pay wages as in previous years. Most industries were maintained by imports of coal from foreign countries at extremely high prices. Thus, the capitalist class, who are ordinarily supported out of the profits of new production in Great Britain, were driven to fall back upon their income from investments abroad with which to pay wages and maintain industry at home and to meet the losses on imported coal. In that way, therefore, the capitalist class created a demand for the products of the debtor countries not only in Great Britain but in Germany, Poland and the other countries which supplied Great Britain with coal.

Payments by Great Britain to industrial countries like Germany and Poland for imports of coal into Great Britain could have been made only in the raw products of the debtors of Great Britain, not only because Germany or Poland could not accept payment in manufactured goods but also because, with the chief industries of Great Britain crippled, Great Britain could make payment for imports of coal only by drawing upon its income from investments overseas.

That, in 1926, Great Britain drew upon some apparently generally unused source for the payment of its imports of coal was noticed in the United States of America. In an article in *Current History* seeking to justify the collection by the United States of America of money loaned to Great Britain and its allies during the World War of 1914–18, Mr. Conrad C. Lesley wrote:

> Great Britain could apparently afford to conduct a general strike last year, export hundreds of millions for investment in foreign countries and dependencies and at the same time reduce the discount rate of the Bank of England, while greatly increasing that institution's [gold] reserves. . . . These facts do not sound like penury.—*Quoted in "The Nation's Business," September, 1927.*

Now, although an embargo had been placed on loans to foreign countries in London in 1924 and 1925, very considerable sums of money were borrowed by the debtor countries in London during those years. To quote Dr. Gregory:

> A check to foreign issues did not prevent private buying of securities, to which extent the embargo was ineffective.—"*The First Year of the Gold Standard,*" *P. 84.*

Heavy loans were also directly given to certain favoured debtor countries by Great Britain in 1926 in the hope that the loans would give rise to exports of goods from

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> A check to foreign issues did not prevent private buying of securities, to which extent the embargo was ineffective.—"*The First Year of the Gold Standard,*" *P. 84.*

Heavy loans were also directly given to certain favoured debtor countries by Great Britain in 1926 in the hope that the loans would give rise to exports of goods from

Great Britain. Loans alleged to be for the purpose of buying goods in Great Britain were freely sanctioned, but it was absolutely impossible for the banking authorities in London to ensure that all the loans given were, in fact, used for the purchase of goods in Great Britain.

The principal preoccupation of the debtor countries in 1924, 1925 and 1926 was the payment of interest on borrowings in London. Naturally, the debtor countries used the loans they were allowed to borrow in London for the payment of interest on borrowings in London. The exports of goods from Great Britain, accordingly, contained no evidence that goods were being given on credit to foreign countries, although hundreds of millions of pounds sterling of loans of money had been given foreign countries in 1924, 1925 and 1926.

The notion that loans given to foreign countries out of money "saved" in the country automatically give rise to exports of goods is firmly rooted in the minds of financiers in the City of London and in the minds of the economists. The Midland Bank shows its faith in that doctrine and its interest in the export of goods from Great Britain to other countries on credit by publishing week after week carefully made calculations of the amounts of the loans given in each week by Great Britain to foreign countries.

The doctrine, that, if Great Britain gives a loan of money to a country overseas, the loan of money, by reason of its own dynamic power, causes an export of goods, has been stated by Mr. Hartley Withers as follows:

> However long and twisted the chain may be that connects the import of securities with the export of goods or services, its pull will finally tell, since those who borrow money take it in some form or other, or hand over the right to take it to some one else.
>
> Since we do not export gold on balance it follows that goods or services must be taken from us.—"*Money Changing*," *P. 64.*

A loan of money from one country to another can give rise to an export of goods only in the event of certain conditions being fulfilled. When a loan does move goods from one country to another it is only one of many arrangements expressly made to move the goods. Goods can be exported on credit from one country to another only if the goods can be produced out of surplus labour and surplus materials.

The export of goods on credit from Great Britain——a country that is obliged to import a large part of its raw materials——must be beset by difficulties of every kind. It is impossible that goods, manufactured like iron and steel goods, largely out of imported raw materials, should always be available in large quantities for lending to countries overseas.

The financiers and the economists were gravely perplexed by the discrepancy between the orthodox theory and the realities of the situation after 1924. They did not consider that the loans raised in Great Britain might be used to make payments of interest in Great Britain and that if the loans raised in Great Britain had been used for making payments of interest in Great Britain, no exports of goods would take place. If the loans raised in Great Britain were used for any other purpose than the purchase of goods, there would, inevitably, be a discrepancy between the statistics published by the Midland Bank and the trade returns.

In the statistics published by the Midland Bank all loans raised for the re-payment of old loans are omitted, because, obviously, such loans can cause no movement of goods. Nevertheless, loans used for the payment of interest are not excluded. The payment of interest out of fresh borrowings had been practised by debtor countries almost from the beginning of the borrowings of loans from the great industrial countries of Europe. The fact is notorious. It is blandly stated in almost every book on the subject. The works of Mr. Hartley Withers contain the admission in more than one place, and before the discrepancy between the statistics published by the Midland Bank and the trade returns had become a subject of wide public discussion Mr. A. Emil Davies's book, *Investments Abroad*, had been published.

The exports of goods from the United States of America and the amounts of the loans given by the United States of America during the same period showed a similar discrepancy, and in an article in *The Economic Journal* of December, 1927, on "The British Balance of "Trade, 1925–27," Professor Maynard Keynes attempted to explain the discrepancy in both countries. The fact, that the money given on loan by Great Britain to countries overseas was not leaving Great Britain in the form of goods was perfectly manifest to every student of the statistics published by the Midland Bank and of the trade returns. Professor Keynes suggested that the money was being "hoarded" in Great Britain. He wrote:

> It will be observed that foreign investment since 1924, both by Great Britain and by the United States, has been peculiar and abnormal in character, *inasmuch as it has not translated itself, as it normally does, into a demand either for goods or for gold, but has been hoarded in liquid form in the foreign centre where the borrowing has occurred.* . . .
>
> We and the United States have been continually creating purchasing power for foreigners on a very generous scale in relation to our true surpluses, but they have not been using it. It has not translated itself, as it normally would, into a demand for goods and a stimulus to trade. Sooner or later this hoarding process must come to an end. When it does, a seriously depressing influence on international trade and general economic expansion will have been removed.—"*The Economic Journal*," *December 1927, P. 565*

The lack of correspondence between the loans of money given to countries overseas and the exports of goods completely confounded the financiers, the monetary experts, the statisticians and the economists. Some explanation had to be brought forward, and Professor Maynard Keynes' theory that the money lent to foreign countries was being hoarded was supplemented by another theory, with which Professor Keynes also associated himself, namely, that the fresh money lent to oversea countries was not the money of investors in Great Britain, but was —to a large extent at least—the money of foreigners.

Foreigners have large balances in the London banks.

Those moneys are deposited for short periods. The loans given by Great Britain to foreign countries is for long periods. Great Britain was, therefore, described as borrowing " short " and lending " long."

That explanation was, no doubt, suggested by certain observations in the Review of the Balance of Trade for 1926 made in *The Board of Trade Journal.* There was, however, no excuse whatever for such a deduction, because it was expressly stated in the review in *The Board of Trade Journal* that " borrowing short " and " lending long " would be an admissible explanation if the amount of the foreign balances in London was steadily rising. The argument of the review was that there was no reason for expecting

a close correspondence between the total of new overseas issues offered on the London market in any year and the available balances of national income.

Sir Josiah Stamp, now a Director of the Bank of England, refused to accept the explanation that the discrepancy between the amounts of the loans given to foreign countries and the amounts of the goods exported on credit was due to borrowing " short " and lending " long." He, however, suggested no other. The reference that he made to the subject in a speech to the Birmingham Chamber of Commerce on October 6, 1927, was reported in *The Times* as follows :

We appeared, from our money market records, to be lending money abroad on fixed investments on a considerable scale, and at the same time there was nothing in the balance of trade to indicate where it came from, for our exports were quite insufficient to account for it. The explanation that it was supplied by continually increasing foreign short deposits lacked verification.

The Economist stated the facts but, following the example of Sir Josiah Stamp, refused to commit itself to an explanation of the mystery.

Foreign loans continue to be raised in London on a considerable scale (the new overseas issues last year amounted to £101 millions), and as the means of making these long-term investments appear in part to have been found from short-term borrowings the situation is considered to be unstable, and it is suggested either that means must be found of diminishing our import surplus by diminishing imports or increasing exports, or else that foreign investments should be checked.

Another school holds a quite different view, which is, that we should lend even more freely abroad, for sooner or later, directly or indirectly, foreign loans will create exports, and thus automatically restore a balance in our international payments.

We do not propose here to discuss either of these points of view or to consider policy; but it will help to clear the ground if the figures are properly understood.—"*The Economist*," *December 10, 1927.*

The writer concluded a long analysis of the balance of payments of Great Britain and of the United States of America with the pathetic lament:

The outstanding fact, however, is that we know so little on those matters.

At the annual general meeting of the shareholders of Barclays Bank, Ltd., Mr. F. C. Goodenough, Chairman, with that fine grasp of facts and sober common sense that distinguish his public utterances, exposed the absurdity of the suggestion. He said:

Various references have recently been made to the volume of foreign balances in the London market.

Since Great Britain returned to the gold standard the amount of these balances has considerably increased, but it must be remembered that before the War London was the normal depository for the world's floating funds, and the influx of moneys of this kind in the past two or three years is, in part, a return to the conditions which existed before the War.

There are, as I have stated, indications that during the past year American balances in London have tended to decline, but, on the other hand, certain Continental balances have increased, and this ebb and flow is a normal feature of an international monetary centre.

It would seem that there is no need to be unduly anxious in regard to the London short-term balances under foreign control, or to anticipate any abnormal withdrawals, but, at the same time, it must be recognized that the existence of these large balances involves a cautious policy in the fixing of [bank] rates.—"*The Times*," *January 20, 1928.*

Apparently unimpressed by the caution of Sir Josiah Stamp or the logic of Mr. Goodenough, *The Times* swooped with majestic self-assurance upon the riddle. On February 3, 1928, the following appeared in a leading article:

> Some indication of the real sum available for investment overseas is, of course, given by the amount of new overseas capital issues; but that is only a very rough guide, and the figures for the last three years bear little relation to the official estimates of the Board of Trade.
>
> During the three years 1925–27 overseas issues on the London market amounted, according to the calculations made by the Midland Bank, to £339,000,000. The Board of Trade estimate of our total national surplus during the same period was only £143,000,000. The huge discrepancy between these two figures must somehow be accounted for, and the key to the riddle lies without doubt in numerous unchronicled transactions, which are known to amount in the aggregate to very large sums. . . .
>
> Foreigners are constantly buying British securities in London, and British citizens are always buying foreign and home securities from abroad. The balances on these transactions may be considerable; and these, together with the large foreign balances held in London, which are of a quasi-permanent nature, provide funds for new investment. But of the total amount of these resources we are almost wholly ignorant.

In view of the well-known fact that debtor countries had been in the habit of borrowing from their creditors in order to make payments of interest to the latter there was not the slightest excuse for seeking far-fetched explanations of the discrepancy between the balance of trade and the statistics of loans to foreign countries compiled by the Midland Bank.

What is very remarkable about the controversy is that the explanation of the riddle of the discrepancy between the loans to foreign countries and the balance in trade was, in fact, given in the review of the balance of trade in *The Board of Trade Journal.* It was stated:

> Credit balances remaining on *international revenue transactions* are available for new investment, *and it has been customary to regard them as the chief source of funds* for purchase of new issues for overseas investment.—"*The Board of Trade Journal,*" *January 27, 1927.*

The Board of Trade Journal article was reprinted in full in *The Economic Journal* of March, 1927, "in view of the "exceptional importance of these estimates at the present "time and the controversies surrounding them." In the issue of *The Economic Journal* for December, 1927, Professor Keynes, to whose article reference has already been made, endorsed the "borrowing short and lending long" theory.

> The opinion has been steadily gaining ground and has received the sanction not only of authorities like Mr. J. M. Keynes but also of *The Board of Trade Journal*, that an important source of capital receipts by Great Britain in the recent past has been short-term loans to the London money market.—*Dr. T. E. Gregory in a Harris Foundation Lecture at the University of Chicago in 1928* ("*Foreign Investments*," *P. 134*).

Now, as already seen from the quotation from the article in *The Board of Trade Journal* of January 27, 1927, interest from investments has been "the chief source of "funds for purchase of new issues for overseas invest-"ments." Professor Keynes had committed himself to the same conclusion in a book published in December, 1919. He then wrote:

> The greater part of the money interest accruing on these foreign investments was re-invested and allowed to accumulate, as a reserve (it was then hoped) against the less happy day when the industrial labours of Europe could no longer purchase on such easy terms the produce of other continents.—"*The Economic Consequences of the Peace*," *P. 20*.

Even in the first decade of the present century inquirers into the subject of the loans given by Great Britain to foreign countries recognized that many of the loans were utilized for no other purpose than the payment of interest in Great Britain on previous borrowings in Great Britain. The question was raised by Mr. W. R. Lawson on the discussion on the paper on Great Britain's Foreign Investments read by Sir George Paish before the Royal Statistical Society on June 15, 1909. The following were Mr. Lawson's remarks:

Toward the close of the paper he [Mr. George Paish] spoke about these creations of credit, which they principally were, as "investments," which many of them were not, and as "savings," which they were still less.

To give an illustration, in today's *Times* nine prospectuses were published, calling for nearly £4,000,000 of money. According to Mr. Paish, if those companies got £4,000,000, it would be so much British savings invested abroad.

As a matter of fact, not one penny of it needed to be British savings at all. The applications for that £4,000,000 of new securities would go through the banks, and at the end of the day the application money would stand at the debit of one set of people and at the credit of another set.—*Journal of the Royal Statistical Society, Volume LXXII, P. 493.*

It is difficult to resist a feeling that the participants in the controversy on the discrepancy between the loans to foreign countries and the balance of trade tried to avoid the admission that the explanation of the discrepancy was that the loans floated in the London Money Market served no other purpose than to provide funds for the payment of interest. What such an admission would mean to the men who control and direct the financial and economic life of Great Britain might be judged from one of Mr. Hartley Withers' articles in the Press shortly before the subject was on the tapis. He wrote:

America is now accumulating capital at a prodigious pace and is obliged to lend abroad, partly because her home securities are dearer than they used to be, and partly because America is everybody's creditor and refuses, by her high tariffs, to take payments in goods and consequently has to go on lending. It may be Alice in Wonderland finance, but there it is.—"*The Referee,*" *July, 1927.*

That is an example of the well-known saying about seeing the mote in another's eye and not seeing the beam in one's own. If Mr. Withers had disabused his mind of the fallacy that, because Great Britain is a Free Trade country, the economy of Great Britain must needs be perfect, he would have perceived that "Alice in Wonder-"land finance" had been flourishing in Great Britain long before it was to be espied in the United States of America.

CHAPTER XVIII

THE RE-EXPORT OF INTEREST

The Arithmetical Illusion of Modern Capitalism

THE assertion, so often made, that Great Britain draws a regular income in foodstuffs, raw materials and other goods from the investments of capital Great Britain has made in other countries does not reveal the slightest trace of a basis of fact. The claim has never been presented with the support of statistical evidence or of any other reliable evidence.

Mr. Hartley Withers has painted vivid word pictures of the blessings conferred upon mankind as a whole by the export of capital from Great Britain and of the blessings conferred upon Great Britain by the import of interest. He has brought forward, however, no statistics by which one may test the sweeping generalizations in his numerous books and essays. The only figures he has employed are a few totals picked up at random from the works of other writers.

In *Money-Changing* (P. 68) Mr. Withers uses imaginary figures to explain what constitutes the trade balance of a creditor country like Great Britain or of a debtor country like Canada. The resort to imaginary figures when statistics are available is one of those peculiarities of writers on financial and economic questions that must be left to them to explain. It is characteristic of Mr. Withers that he " simplifies " the subject for what he describes as a diagram " by leaving out all invisible " articles of export except securities and coupons." One might as well stage *Hamlet* without Hamlet in it. Those, however, are the methods by which Mr. Withers constructs " trade balance sheets " for the justification of the export of capital from the industrial countries of Europe.

There is no escape from the conclusion that the debtor countries export only as much as is necessary to meet the difference between their obligations in interest and the amount of their fresh borrowings of money, and Mr. Withers and the other apologists of the present capitalist system have merely concealed that ugly truth and its uglier implications.

Writing of Canada, a debtor country, that is, a country that is supposed annually to send £60 millions of goods to Great Britain in payment of interest upon over £1,000 millions of borrowed capital, Mr. Withers says:

> With the credits raised by its export of securities [that is, fresh borrowings] Canada meets these coupons [that is, interest obligations] pays what it owes for freights and other services, and finally pays for the goods that it has still to import in excess of the value of its imports.—"*Money-Changing*," *P. 61.*

If that is how Canada pays interest upon its borrowings of capital from Great Britain——and Canada is Mr. Withers' choice of an example of a debtor country—— it is not difficult to assess the meaning, obscured though it is, of the following description of the income Great Britain is supposed to derive from her investments of capital in foreign lands:

> The actual import of securities, then, should tend to produce an excess of exports [of goods] just as we saw in the case of Canada that the export of securities produced an excess of imports [of goods]; and in the first half of the nineteenth century an excess of exports [of goods] was a regular feature in English trade. *But in the case of those countries that are old-stagers in money-lending this influence is easily off-set by the effect of the export of coupons, representing claims for interest on the sums that they have invested abroad in former years.*
>
> No definite figures are to be had to show us either the value of the securities that we import year by year, or that of the coupons that we export. But Sir George Paish estimates that we have invested abroad some 3,500 millions, and that we are now importing securities at the rate of more than 160 millions a year.

If we accept the figures of this careful and exceptionally well-equipped inquirer, and adopt his theory that our investments abroad yield us an average rate of 5·2 per cent., we should expect to receive from other countries some 182 millions a year against coupons exported, as a set-off against the 160 odd millions a year that we pay against securities imported.

If this be so, *there would be a balance of about 20 millions a year to be provided by the borrowing countries, which they meet by pouring goods into us.*

In other words we make an invisible export of coupons and dividend warrants, to balance which the borrowers make visible shipments of goods which are recorded in our trade returns.

Countries in a similar position to ours in this matter of receiving goods in payment of interest on old investments, *partially off-set by a contra-entry on account of fresh investments that they are now making*, are France, Germany, Holland, Belgium and Switzerland.—"*Money-Changing*," *Pp. 64–6.*

It is impossible not to admire Mr. Withers' literary skill. The general impression created upon the mind of the reader is that the debtor countries are "pouring" enormous quantities of goods into Great Britain in payment of interest. Yet, Mr. Withers has, in fact, gone no further than to state that the total amount of the interest received in goods is a mere trifle——£20 millions.

How utterly insignificant "a balance of 20 millions "a year to be provided us by the borrowing countries" is might be judged from the fact that in 1913——the year in which Mr. Withers' book was first published——the total net imports into Great Britain amounted to no less than £659 millions!

"A balance of 20 millions a year to be provided us "by the borrowing countries" is a return of a little over half per cent.—four-sevenths to be exact—upon an investment of £3,500 millions. Moreover, £20 millions a year distributed over a population of 40 millions works out at ten shillings per head per year or ten pence per head per month! It is a misuse of words to say, as Mr. Withers does, that, in discharge of obligations amounting to only £20 millions a year, the countries indebted to Great Britain are compelled to resort to "pouring goods into us."

Mr. A. Emil Davies, it has already been seen, has stated in the most definite terms that countries that have borrowed capital from Great Britain and the other industrial countries of Europe have paid interest on the capital only to the extent that they were able to raise fresh loans of money for the payment of interest in Great Britain and the other industrial countries of Europe. Nevertheless, Mr. Davies states in the same work that the capitalist class derive a vast income from the debtor countries, and he attributes to that circumstance the progress of civilization and of refinement in Europe. He writes:

> The benefit to the lending or investing country is obvious, for the tribute from capital invested abroad enables it to increase its standard of life beyond what it would be if its population depended solely upon its own earning capacity.
>
> It is indeed probable that we owe most of our culture and the refinements of civilization to the fact that the labour and products of other people have created a leisured or semi-leisured class within the community, some of whom have thereby been able to cultivate the arts.—"*Investments Abroad,*" *Pp. 13–14.*
>
> By the process here described the older nations of Europe had, prior to 1914, reached a peculiar state, in which, in varying degrees they were the recipients of foreign tribute and had large sections of their population divorced from industry, which promoted the growth of leisured classes, side by side with a large number of workers employed on *articles de luxe* and the arts generally.—"*Investments Abroad,*" *Pp. 15–16.*

One wonders how such marvels were produced in Europe by an income from investments of capital in other lands, if "no tribute" actually came to Europe and if, to use Mr. Davies's own words:

> The fact is that hardly any of the borrowing countries pay their way, ("*Investments Abroad,*" *P. 22.*)

and if

> The borrowing nations of the world pay interest on their loans just about to the extent that their creditors advance them the wherewithal to do so. ("*Investments Abroad,*" *P. 20.*)

Professor Maynard Keynes, with that dialectical skill that distinguishes his writings, has sought——unsuccessfully, as will presently be shown——to avoid the contradictions into which Mr. A. Emil Davies has been forced. Mr. Keynes argues that the income from investments of capital made by Great Britain did not enter the country because of conscious regulation. He writes:

> The Old World employed *with an immense prudence* the annual tribute it was thus entitled to draw. . . .
> *The greater part of the money interest accruing on these foreign investments was reinvested and allowed to accumulate*, as a reserve (it was then hoped) against the less happy day when the industrial labour of Europe could no longer purchase on such easy terms the produce of other continents.—"*The Economic Consequences of the Peace*," *P. 20.*

But Professor Keynes is unable to break away completely from the usual pretexts, for, on the same page of the same work, he thus completely contradicts himself:

> The prosperity of Europe was based on the facts that, owing to the large exportable surplus of foodstuffs in America, she was able to purchase food at a cheap rate measured in terms of the labour required to produce her own exports, and that, *as a result of her previous investments of capital, she was entitled to a substantial amount annually without any payment in return at all.*

It is impossible that an income "substantial" enough to be a decisive factor in the prosperity of the whole of Europe could have been extracted from the annual tribute from the colonial world, if "with an immense "prudence" "*the greater part of the money interest* accruing "on these foreign investments was re-invested."

Sir George Paish has made a special study of the investments of capital of the industrial countries of Europe in other lands, and he is generally described as the greatest authority on the subject. He writes:

> Europe's income from investments in pre-war days gave her the power of buying a large part of the food and raw materials she required to purchase from foreign countries, but as this income has greatly diminished, this food and material have now to be paid for in some other way.—"*The Road to Prosperity*," *Pp. 12–13.*

It is conceivable that a statistician and economist might pass his days in ignorance of the facts and figures that have been brought to light in this work, although they were within the range of his most serious studies. What is inconceivable is that Sir George Paish should be able in his own mind to reconcile the statement quoted above with the following that is made in the same work:

> In pre-war days Great Britain alone supplied some £200 millions of capital per annum to foreign and colonial countries for their development, more than half of the money being devoted to railway construction, while Germany, France and the other leading nations of Europe supplied nearly as much again, all of which increased the world's power to buy European goods.—"*The Road to Prosperity*," *P. 131.*

Now, if Europe, before the World War of 1914–18, gave, according to Sir George Paish's estimate, some £350 millions' worth of goods annually on credit to other parts of the world, Europe surely could not have been dependent upon her income from investments in foreign and colonial countries for payments of imports of "a large "part of the food and raw materials she required to "purchase from foreign countries." That income was certainly not greater than £350 millions per year. Even if it had been greater, the difference would have been trifling. The only possible conclusion, therefore, is that the income from investments in foreign and colonial countries was unnecessary to the peoples of the industrial countries of Europe and was, therefore, re-lent by the industrial countries of Europe.

The same looseness of thinking characterize statements made in the United States of America regarding the import of interest from investments made by the United States of America in other lands.

> We are sending millions abroad the interest on which will return to us in the form of raw materials to partly supply our constantly increasing need for these things.—"*Can We Compete Abroad?*" *P. 147.*

Half the exports of capital from the United States of

America since the World War of 1914–18 have been to the industrial countries of Europe, and it is perfectly ridiculous for any one in the United States of America to pretend that the countries of Europe will pay the interest to the United States of America in raw materials, especially as the United States of America is also lending largely to the countries that produce raw materials. If the industrial countries of Europe are to make payments of interest to the United States of America, the only available means will be gold imported from South Africa.

The claim that the export of capital from the United States of America is intended to give rise to the production in other lands of foodstuffs and raw materials to meet " our constantly increasing need for these things " is in strange contradiction of the fact that the production of foodstuffs and raw materials is collapsing in the United States of America. One of the first tasks confronting President Herbert Hoover and his administration is the rescue of the American farmer from ruin. How is " our constantly increasing need " for foodstuffs and raw materials to be met when the production of foodstuffs and raw materials in the United States of America is declining? Why is it declining? Why should the United States of America ten years hence import wheat from the Argentine or Australia when the finest wheat-growing lands in the world are in the United States of America?

Professor Cassel admits in the memorandum that he submitted to the World Economic Conference of May, 1927, that the imports into the industrial countries of Europe from the colonial world are entirely insufficient to meet the interest on the loans that Europe has given the colonial world and pay for the present exports from Europe to the colonial world.

> Interest had, of course, to be paid by the exports of the colonial world, and, indeed, to a very considerable extent, these imports had merely to serve the purpose of paying interest to the creditor countries. *The consequence was that the rest of the export that was available for European products was much reduced. . . .*

The colonial world, however, ***burdened with these interest payments,*** had as a rule no possibility of paying for a supply of real capital required for its normal economic development. If Europe wished to contribute to this development, and, at the same time, to procure a market for its production of real capital and capital materials, Europe was bound to continue to advance funds to the colonial world.—"*Recent Monopolistic Tendencies in Industry and Trade.*"

If it is supposed that the interest claims of the industrial countries of Europe were a first charge upon the foodstuffs and raw materials that the colonial world exports to the industrial countries of Europe, "the rest of the "exports that was available for buying European pro-"ducts" was not sufficient to pay for more than a tiny fraction of all the goods imported by the colonial world.

Professor Cassel assumes that the only imports on credit into the colonial world are "imports of real capital "required for its normal development." Even Professor Cassel has admitted, as seen in a previous chapter, that "textiles, shoes, etc." could constitute borrowings of capital, and it is impossible for him, therefore, to set up the pretext that the borrowings of the colonial world are confined to "real capital." The term, "real capital" is used to distinguish the goods that constitute durable wealth from the money value of durable wealth.

Professor Taussig writes:

Some writers have distinguished between "capital" and "capital goods." By the latter term they mean the concrete apparatus of production.—"*Principles of Economics,*" *Volume I, P. 84.*

Therefore, under whichever description one might put the imports from the industrial countries of Europe to the colonial world—that is, whether the imports consist of "goods of rapid consumption" or durable wealth—there is no escape from the fact, as admitted by Professor Cassel, that the exports of goods from the colonial world to the industrial countries of Europe are insufficient to pay for the imports of goods into the colonial world and the interest obligations of the colonial world.

The re-lending of interest, unlike the original lending of capital, does not move goods. The re-lending of interest is not, to use the language of Professor Maynard Keynes, like "the immense accumulations of fixed "capital which, to the great benefit of mankind, were " built up during the half-century before the War" (*The Economic Consequences of the Peace, P. 16*). It, therefore, does not possess even whatever justification might be claimed on behalf of the original export of capital.

Nor are the effects produced by the re-lending of interest purely negative. It does positive injury to the economy of the creditor country and of the debtor country alike. The re-lending of interest is not, as is generally supposed, the giving of fresh buying power to the debtor country or the transfer to another country of the interest after its receipt by the creditor country. Unless the interest is received in goods (that is, the raw produce of the debtor countries) there can be no corresponding production in the creditor countries for lending to other countries, because men can not mine iron ore or coal, feed blast furnaces or carry out the thousand and one operations in the production of manufactured goods, and, at the same time, maintain existence upon bits of paper. Thus, the re-export of interest stifles production and employment in the creditor countries.

The effect produced upon the debtor countries is equally disastrous. By being forced to consent to the accumulation of compound interest, the debtor countries are denied the scope to expand their production for the purpose of paying interest upon their borrowings. That shatters to pieces the basis of the pretext that the export of capital to the colonial world is carried out for the purpose of expanding the productive power of the colonial world, for the expansion of the production of foodstuffs and raw materials in the debtor countries must necessarily be limited if the creditor countries do not receive interest in foodstuffs and raw materials.

The artificial restriction of the productive capacity of the debtor countries, moreover, by reducing the opportunities for labour blocks the expansion of the population of the debtor countries by immigration, and what is worse, causes unemployment even among their scanty populations. Thus, countries like Canada, Australia and South Africa—despite very small populations—are as much affected by the problem of unemployment as the older countries in Europe. The expansion of the populations of the new lands of the colonial world by immigration is, under the capitalist system, rendered impossible.

The re-export of interest from the creditor countries of Europe is destroying production in both the creditor and the debtor countries. The re-export of interest is a mighty clog in the economic machine of the whole world, on the one hand crippling the productivity of the industrial countries of Europe, and, on the other, retarding the productivity of the virgin lands of the colonial world. The "income from investments of capital in foreign "lands" is only an arithmetical illusion of Modern Capitalism.

CHAPTER XIX

THE NEMESIS OF MODERN CAPITALISM

The Ghastly Tragedy of Compound Interest

THE conclusion already arrived at that Great Britain does not draw upon its income from investments of capital in foreign countries, except to a trifling extent, is confirmed by an examination of the economic situation of the holders of the securities.

There are two facts that must clearly be borne in mind. The first is that the investments of capital made by Great Britain (or any other creditor country) in foreign countries have been made by individuals and that the collection of the interest is thus dependent upon the actions of those individuals. The second is that the interest is paid to the holders of the securities not in goods but in the money of their own country. Thus, the people in Great Britain who subscribe to a foreign loan floated in London are paid interest in pounds sterling.

When the loans were subscribed, they were subscribed in money, and it was only because the borrower had made arrangements to convert the money into goods that the loan was taken out of the country. If payments of interest are to be effected in goods the borrower (now debtor) has to reverse the process. Goods have to be brought into the creditor country and there converted into money. The money so obtained is used to make payments of interest.

Mr. A. Emil Davies has thus described the receipt in a creditor country of an income from investments of capital in foreign countries:

> The individual owners of bonds and stocks cannot themselves consume these imports, but their ownership thereof enables them to feed and clothe others—in other words, to employ a number

of their fellow-citizens for the purpose of ministering to their needs and tastes, to paint pictures and write plays for them, to make jewelry, pleasure yachts, build country mansions, and so on. . . .

After some generations of this state of affairs, one gets a community in which an ever-decreasing number of people are producing food and the primary necessities of life (for these come as tribute), and an ever-increasing number of the population are engaged upon services and labour directed to objects less useful and necessary, mostly of a luxurious nature, some of them having artistic value, and others, it is to be feared, being of a far less desirable nature.—"*Investments Abroad,*" *P. 15.*

It will be seen at once that Mr. Davies supposes that those who derive incomes from overseas spend the whole of those incomes on the purposes he describes, and that it is by that means that the goods shipped by the debtor countries are taken up by the population of the creditor country as a whole.

Now, the citizens of Great Britain who hold the securities of countries overseas are exactly in the position of the money-lender and producer between whom and Great Britain as a money-lender and a producer a parallel was drawn in a previous chapter. Upon the supposition of Mr. Davies, those individuals who have lent money to foreign countries are spending the whole of their incomes from investments in foreign countries upon every form of luxury, because, as producers and investors in Great Britain, they already possess incomes to meet all their ordinary expenditures. No one would pretend that the individuals who subscribe to foreign loans raised in London, especially the individuals who come within the scope of Mr. Davies's description, are individuals with no other sources of income. On the contrary, nothing is more true than that subscribers to foreign loans are almost without exception individuals who have large incomes as producers and large incomes as investors in Great Britain.

There is a very common notion that the rich spend a very large part—if not the whole—of their incomes. That is an absurd notion. It is impossible for the very rich to spend more than a fraction of their incomes.

There are people whose individual incomes are so large that by no form of extravagance is it possible for them to dispose of every year more than a part of their incomes. For example, there were in 1925–26 in Great Britain 138 persons with incomes of over £100,000 liable to super-tax, after all remissions of super-tax had been made. The incomes of those 138 persons totalled over twenty-seven and a half million pounds sterling, that is, each of them, on an average, had an income of £200,000. An expenditure of over £12,000 a year must involve every form of personal extravagance.

Every wealthy person, moreover, does not strive after the attainment of the highest possible standard of extravagance. Every one with an income of over, say, £6,000 a year does not provide himself with a pleasure yacht and a country mansion. There is a heavy lag of expenditure behind income among the wealthy class. Once a man's income goes beyond, say, £6,000 he is forced to re-lend the interest he receives from his investments. Rich people are thus compelled to "save" a large part of their incomes by the sheer impossibility of spending the whole of their incomes.

Nevertheless, economists pretend that the savings of the rich are voluntary. Professor F. W. Taussig writes:

> The habit of saving is strongly intrenched among the well to do. Spendthrifts are rare, and such extravagances as occur are more than balanced by the fresh accumulations of new savers and investors. Consequently the making of new capital—of machinery, materials, and all sorts of apparatus—goes on constantly.—"*Principles of Economics*," *Volume I, P. 78.*

There are not many opportunities for fresh investment in Great Britain, and that is why rich people in Great Britain have made investments in foreign countries.

> We were accustomed before the War to invest nearly half our savings abroad. . . .
>
> The figures of our balance of trade suggest that our net foreign investment has in fact been in recent years on a much smaller scale than it used to be before the War.—"*Britain's Industrial Future*," *Pp. 19–20.*

Because of the absence of adequate opportunities for the investment of capital in Great Britain, the income which rich people in Great Britain receive from their investments in foreign countries must necessarily be re-lent to foreign countries. There is, accordingly, no ground whatever for Mr. Davies's supposition that the income from foreign investments is expended by the rich upon the making of "jewelry, pleasure yachts and "country mansions." "Jewelry, pleasure yachts and "country mansions" come out of the huge incomes which the rich derive as producers and lenders at home.

Seventy per cent. of the "savings" of the people of Great Britain, as shown in a previous chapter, come out of the profits of wealthy industrial and commercial organizations. The inequality in the distribution of property and of the national income in Great Britain both prove that the investments of British capital made in foreign countries are owned by only a small number of persons in Great Britain, whose expenditures are only a small fraction of their incomes and who, consequently, are compelled to find outlets for investment of their surplus incomes—opportunities for investments at home not being available—in foreign countries. The whole or almost the whole of the incomes of the rich from their investments in foreign countries is thus, necessarily, re-invested in foreign countries.

These facts have been admitted by Professor Maynard Keynes in a description of the accumulation of capital in Europe.

> Europe was so organized socially and economically as to secure *the maximum accumulation of capital.*
>
> While there was some continuous improvement in the daily conditions of life of the mass of the population, Society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it.
>
> The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption.
>
> In fact, it was precisely the *inequality*—[writer's italics]—of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distin-

guished that age from all others. Herein lay, in fact, the main justification of the Capitalist System.

If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a regime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

The immense accumulations of fixed capital, which, to the great benefit of mankind, were built up during the half-century before the war, could never have come about in a Society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the Pyramids of Egypt, the work of labour which was not free to consume in immediate enjoyment the full equivalent of its efforts. —"*The Economic Consequences of the Peace*," *Pp. 16–17.*

In the United States of America also the major portion of the capital wealth of the country is held by a small fraction of the population, and there are a certain number of people whose incomes are vastly in excess of their expenditures.

Professor F. W. Taussig writes:

The wide separation, in modern societies, of the two acts needful for the creation of capital—saving and the application of labor—is mainly the result of inequality.

Persons of the well to do class have a considerable surplus over current needs, and save with comparative ease. They own most of the apparatus of production. But most persons in our modern societies are not of the well to do class, and have little in the way of a surplus. They have small accumulations, and they are mainly hired by others in carrying on the operations of time-consuming production, and in making and maintaining capital.

No doubt, some savings are made by the working classes; and through the agency of savings banks and similar institutions, these savings have increased rapidly. But, while absolutely considerable, they are no large proportion of the total of accumulated means.

The greater part of the capital owned and maintained in modern communities arises from the savings of the comparatively small numbers of the more fortunate classes.—"*Principles of Economics*," *Book I, Chapter V, P. 76.*

The analysis of the incomes in 1925 made by the Treasury of the United States of America showed that

207 individuals had taxable incomes in excess of a million dollars (£200,000) each.

Professor Irving Fisher is the greatest authority on questions of capital and income. Like Professor Maynard Keynes and Professor Taussig, Professor Irving Fisher admits and emphasizes the fact that the major portion of the incomes of the rich class is not consumed but is re-invested as capital.

> In his analysis of the latest figures on incomes in America Professor Irving Fisher makes two points which are not so generally recognized as they ought to be.
>
> Critics of the capitalist system make much of the fact that 2 per cent. of the population receives 20 per cent. of the national income.
>
> Professor Fisher's first point is that only a small fraction of this amount goes for personal expenditure. "Nobody supposes," he remarks, "that Henry Ford can begin to spend for food, clothing, "shelter and luxuries for himself and his family more than a very "little of his vast income."
>
> Where does the bulk of it go? Back into the Ford enterprises, of course. So with the other members of the richest income class.—*New York* "*Evening Post*." [1]

The second point made by Professor Fisher has no reference to the subject-matter of this chapter.

The income from investments in foreign lands reaches a small class of capitalists, the class, who, as Mr. Davies says, luxuriate in country mansions and pleasure yachts. As already shown, the individuals of that class have really no opportunity of increasing their expenditure and thus setting up a demand for more production. The contribution that they make to the increase of the population is inconsiderable, and, as statistics prove, declining. Their standard of living can not possibly be raised higher. The only kind of goods for which the very rich can set up a demand is "durable goods" or fixed capital, and as Great Britain is already largely saturated with fixed capital, the very rich in Great Britain who hold investments of capital in lands overseas can never bring the

[1] Quoted in *The Chicago Tribune*, Paris Edition, March 15, 1928.

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income from their investments of capital in foreign lands into Great Britain in goods.

The vast masses of the working classes of Great Britain, who are multiplying most rapidly and whose standard of living is most urgently in need of improvement, have neither a direct nor an indirect means of acquiring possession of the income from investments of British capital in oversea lands. The fourteen million wage-earners in Great Britain who do not pay income tax do not hold investments of capital in lands overseas.

It is entirely upon the economic situation of the individual in Great Britain who invests capital in lands overseas that the collection of an income in goods from the capital he invests in lands overseas is dependent. That is fundamental. As Mr. Davies points out, the holders or the securities—who, as already explained, are a tiny minority of the population—can not directly consume hundreds of millions of pounds sterling worth of foodstuffs and raw materials. Mr. Davies, like every one else to this day, has, however, failed to see that men whose incomes at home greatly exceed their expenditures can not possibly draw upon their incomes from foreign lands to finance expenditure at home. Thus, the incomes of the very rich from investments of capital in foreign lands must remain abroad—an expanding burden from which the debtor countries can never free themselves, under the capitalist system, *except by repudiation*.

It is now necessary to explain a fact disclosed in the previous chapter, namely, that to the extent of between £20 and £30 millions per year, in normal times, Great Britain has been importing goods from foreign lands as interest from investments.

Many of the oversea securities—securities issued by the dominions, for example—are registered as trustee securities. The funds of trusts in Great Britain are, accordingly, invested in the loans floated by the self-governing British Dominions. The inclusion of loans floated in Great Britain by oversea parts of the Empire in the class of trustee securities is always recognized as a high recommendation of the stock. Most of the dependents on trusts are compelled largely to draw upon the incomes of the trusts for maintaining themselves. Consequently, there is a demand for goods that can be met out of produce from debtor countries. In other words, the incomes the trusts derive from investments in oversea lands are not re-invested to the same extent as the incomes of other holders of such investments.

There is an even more important factor to be taken into account. It is almost always overlooked that the income that Great Britain derives from overseas consists to a certain extent, not of interest on investments of capital, but of pensions that Britishers have earned by service in India and the colonies. India alone remits millions of pounds sterling annually in payment of the salaries of civil and military officers and soldiers. British merchants who have spent many years in the country generally retire with large fortunes, the transfer of which must give rise to large shipments of goods from India to Great Britain.

The rich merchant, on retirement from India or a Crown colony, generally purchases or builds for himself a mansion or a less pretentious habitation, and from the day of his arrival he makes a new call on the production and labour of the country. He has to begin providing himself with very nearly everything he needs or desires. The mansions, pictures, pleasure yachts, motor cars and other goods he buys, the food and drink he consumes and the servants he employs involve a fresh call on the production of Great Britain. The production and the employment he thus creates give India the opportunity of selling more produce in Great Britain. The pensioned civil servants, military officers and soldiers generally live up to very nearly the full amount of their pensions. The pensions that the civil servants, military officers and soldiers draw from India, the Crown colonies and the protectorates can be paid in Great Britain only by the export of large quantities of the products of India, the Crown colonies and the protectorates.

Although an examination of the foreign trade and economy of Great Britain shows that Great Britain does not receive goods from India and the Crown colonies in payment of interest, the foreign trade of India and of the Crown colonies shows an excess of exports over imports sufficient for the purpose. India and the Crown colonies, who are now not regular borrowers in London, must necessarily be making payments of interest in goods. Those goods, however, do not enter Great Britain, for Great Britain annually exports to India and most of the Crown colonies more than Great Britain imports from India and the Crown colonies. The countries on the continent of Europe, on the contrary, import much from, and export comparatively little to, India and the British Crown colonies. Therefore, the countries on the continent of Europe pay India and the Crown colonies by discharging the interest obligations of India and the Crown colonies in London.

Now, during the past sixty or seventy years the countries on the continent of Europe have been borrowing capital from Great Britain. What is very remarkable is that it is precisely during the past sixty years that Great Britain has lost its markets on the continent of Europe. The conclusion is thus forced upon one that the exports of capital from Great Britain to the countries on the continent of Europe have been effected by Great Britain lending to the countries on the continent of Europe the raw products that India and the Crown colonies have been exporting in payment of interest to Great Britain. Great Britain has had no other means of transferring capital to the countries on the continent of Europe.

That conclusion is confirmed by the fact that it is since the industrialization of the countries on the continent of Europe, after the Franco-German War of 1870–71, that a demand has arisen in the countries on the continent of Europe for the products of India and of the British Crown colonies. In other words, the British people are deriving no benefit from their investments of capital in India and the Crown colonies and are, instead, handing over that interest in the form of valuable foodstuffs and raw materials to their most powerful industrial rivals on the continent of Europe.

The export of capital from Great Britain to the countries on the continent of Europe by means of the transfer to the countries on the continent of Europe of the raw products that India and the Crown colonies export in payment of their interest obligations to Great Britain continues to this day. In reviewing *Foreign Investments*, the Harris Foundation Lectures of the University of Chicago in 1928, *The Economist* wrote in its issue of February 9, 1929:

> Germany has not been by any means the only receiver of our recently exported capital, for wherever we turn we see evidence of heavy British investment in Europe, and it has yet to be shown that we have lost our position as the world's greatest exporter of capital.

Thus, the individuals in Great Britain who have an income from overseas fall into two very distinct classifications. One classification is compelled to receive an income from overseas in goods, and the other classification is wholly unable to receive an income from overseas in goods. That is why Great Britain imports a small part of the interest on investments of British capital in oversea lands in the form of goods and re-lends the balance either by a transfer of the products received from the debtors to fresh debtors or by allowing the accumulation of compound interest.

The whole conception of maintenance being found for an increasing population in Great Britain out of an income from investments of capital in countries overseas that are held by a small class of capitalists in Great Britain is a fiction and a fraud. That fiction is based upon, and that fraud is concealed by, the fundamental fallacy that the individuals who had exported on credit the surplus production of the community of which they had secured possession must necessarily expend the whole income from that surplus. The surplus production arose out of the inability of those who exported it (on credit) to consume that surplus production, and it is to fly in the face of common sense to argue that people who possess a surplus of production that they can neither use nor consume can possibly be dependent upon an income that may arise from that surplus of production. The income from a surplus must necessarily be a surplus.

The investments of British capital that have been made in oversea lands arose out of the circumstance that the incomes of the wealthy class had passed beyond the limit of their expenditures——however low or however high that limit might have been placed by personal inclinations——and the incomes that thus arithmetically arose are, by reason of the circumstances in which they arose, surpluses to those who receive those incomes. Those incomes can never pass from an arithmetical illusion to an economic reality——from money to goods——unless the persons who receive incomes from investments in oversea lands increase their expenditures to the full extent of their total incomes both from investments at home and from investments in oversea lands.

" Thus this remarkable system "——the quoted words are Professor Maynard Keynes'——of exporting capital and re-exporting interest is maintained " by a double " bluff or deception. The working classes accepted from " ignorance or powerlessness, or were compelled, per- " suaded, or cajoled by custom, convention, authority, and " the well-established order of Society into accepting a " situation in which they could call their own very little " of the cake that they and Nature and the Capitalists " were co-operating to produce."

" The immense accumulations of fixed capital which, " to the great benefit of mankind, were built up during " the half-century before the war " have gone from the shores of Great Britain never, never to return, and the working classes who contributed to the making of the cake have now the bitter mortification of knowing that the promise of an income of foodstuffs and raw materials was a delusion, a deception and a fraud.

The exporter of capital is, by reason of the very circumstances which make him an exporter of capital, incapable of receiving himself or of allowing his countrymen and countrywomen to receive the interest on the capital he has exported. He is automatically barred from converting the money interest he receives into goods or into services—be they pleasure yachts or pictures, lectures or obeisances—for he already possesses all the pleasure yachts or pictures that he could use and receives from his countrymen and countrywomen all the services that he needs.

If colonial produce must wither upon the fields upon which Nature and the colonial farmer have raised them, while unemployed millions wander in poverty and in despair over derelict industrial areas, pining for the abundance that mocks them at the Antipodes, the exporter of capital remains unmoved by that ghastly spectacle of human woe—however it might touch princely or public compassion. The comforting doctrines of sycophant economists stifle the questionings of his conscience, and the hapless debtor countries helplessly submit to the iron will of a remorseless Shylock who would have nothing but his pound of flesh—compound interest.

CHAPTER XX

THE IMPORT OF INTEREST IN GOODS

Firmly Opposed by the Exporters of Capital In Great Britain

THE most astounding aspect of the export of capital from Great Britain to other parts of the world is not the fact that Great Britain does not receive an income in foodstuffs, raw materials or other goods, but that the financiers, the industrialists and the economists——all those who are interested in the export of capital from Great Britain——are opposed to the receipt of interest in foodstuffs, raw materials and other goods. That startling truth has been blandly disclosed by Sir George Paish in *The Road to Prosperity*.

Canada and Australia are the two most heavily indebted countries in the whole world. Each of them has a foreign debt larger than the debt Great Britain owes to the United States of America——the largest of the debts contracted by any belligerent in the World War of 1914–18 in the United States of America. Canada and Australia each carry a burden of foreign debt second only to that of Germany's Reparations debt, and the population of Canada is only a sixth and the population of Australia is only a tenth of the population of Germany.

The payment of interest by a debtor country to a creditor country, according to the Colwyn Committee, takes " the form of an export of goods and services, " *which do not pay for any imports in return.*" Applied to Canada and Australia that principle implies that Canada and Australia should annually export to Great Britain large quantities of foodstuffs and raw materials which would not " pay for any imports in return."

To the exports of goods from Canada and Australia to Great Britain that would not " pay for any imports in " return," strange to say, Sir George Paish is resolutely opposed. He admits that Great Britain needs the products of Canada, but he insists that Canada should import goods to the full amount of the exports of Canada.

Sir George Paish writes:

> We in Europe need the products of Canada, but if we are to obtain them Canada must be prepared to accept payment in British, European and other foreign products.—" *The Road to Prosperity*," *P. 28.*

That statement is not true. Great Britain has a claim to £60 millions a year in interest on its investments of capital in Canada. To that extent Great Britain could import " the products of Canada " without making " payment in British, European and other foreign " products." The annual exports of Canada to Great Britain during the three years, 1924, 1925 and 1926, amounted, approximately, to £60 millions, so that the whole of the present imports of foodstuffs and raw materials and other goods from Canada to Great Britain should come entirely as a gift from Canada to Great Britain.

Sir George Paish writes :

> It is of vital moment to Canada that Europe should be prosperous *and able to buy her products freely* at prices which will encourage farming under Canadian conditions. At the present time, however, Canada is placing every possible impediment in the way of Great Britain *and of Europe making payment to her in kind for her products.*—" *The Road to Prosperity*," *P. 27.*

Now, if Canada is to meet its obligations of interest by the export of goods, Canada must, as explained by the Colwyn Committee, forego the import or the buying of the products of Europe——to the extent of the interest obligations of Canada. If Great Britain is to collect interest on its loans to Canada, Great Britain must take the products of Canada as a gift and not insist on " making " payment to her in kind for her products." It is only by pouring goods into Great Britain and taking nothing in exchange that Canada can meet Canada's interest obligations to Great Britain, but Sir George Paish devotes a considerable part of *The Road to Prosperity* to a denunciation of Canada, Australia and the other debtor countries for endeavouring to make an export of goods to Great Britain "which do not pay for any "imports in return."

Upon the arguments upon which the export of capital from Great Britain has been justified and upon the principles enunciated by Adam Smith, plenty and prosperity should be conferred upon the people of Great Britain, if Canada exports foodstuffs, raw materials and other goods to Great Britain in payment of Canada's interest obligations in Great Britain. Sir George Paish states the exact contrary. He declares that Canada is "impoverishing" Great Britain by endeavouring to effect "an export of goods and services, which do not "pay for any imports in return." Sir George Paish insists that Canada should export goods only against imports of goods from Great Britain. To quote his own words:

> Canada, in common with other debtor countries, needs a great expansion of income to enable her to honour her present obligations and to obtain the additional credit she requires for her development.
>
> By pursuing a policy *which is impoverishing her best customers* this expansion of income can not be obtained. Only by helping *to restore and to increase the permanent buying-power of the nations which need Canadian foodstuffs*, will it be possible for Canada to expand her income to the extent which her present situation so urgently demands.—"*The Road to Prosperity*," *P. 28.*

Sir George Paish has written a chapter on "The Need "for Income" in *The Road to Prosperity*, but nowhere in the book does Sir George Paish give an explanation of what he means by income. No one can presume to know what is the kind of income that Canada needs in order to pay interest on its debts to Great Britain. Every one does know that the only means by which Canada can pay interest on its borrowings from Great Britain is "an export of goods, which do not pay for any imports "in return." In other words, Canada needs an excess of exports in order "to honour her present obligations," and the foreign trade policy that Canada must, therefore, pursue is a policy of limiting imports of goods and services and increasing exports of goods and services.

It is impossible to understand how Canada could impoverish Great Britain by sending to Great Britain in each year foodstuffs, raw materials and other goods to the extent of £60 millions (the amount of Canada's interest obligations to Great Britain) if, as Adam Smith demonstrated, a country gains by the goods it receives or imports and not by the goods it sends out or exports. It is not Canada's function to sell foodstuffs, raw materials and other goods to Great Britain, but, to use Mr. A. Emil Davies's phrase, to pay tribute to Great Britain in foodstuffs, raw materials and other goods to the extent of £60 millions annually.

Sir George Paish has disclosed the absurdity of his denunciation of the high tariffs of Canada and Australia more clearly in his references to Australia than even in his references to Canada. He writes:

> Probably at no time was Europe in greater need of wool and wheat from Australia, and never did Australia create so many difficulties to their purchase.—"*The Road to Prosperity*," *P. 29.*

There is no need at all for Europe to "purchase" the wool and wheat of Australia. Australia ought annually to send to Great Britain £50 millions in wheat and wool and other goods as interest on the loans that Great Britain has given Australia. All that Great Britain need do is to receive £50 millions of wool and wheat from Australia and cancel £50 millions of interest coupons.

There is no complaint in Great Britain that sufficient quantities of wool and wheat are not being shipped from Australia. No one can say that Australia is not producing and striving to ship to Europe all the wool and the wheat Australia can pour into Great Britain or any other country in Europe. When, therefore, Sir George Paish uses the words, "and never did Australia create "so many difficulties to their purchase," he refers to the tariffs imposed upon British manufactures entering Australia. In imposing heavy customs duties upon goods entering Australia, Australia is endeavouring, in accordance with the principle enunciated by the Colwyn Committee, merely to effect "an export of goods, which "do not pay for any imports in return." That is the only means by which Australia could pay interest in goods to Great Britain on the loans that Australia has borrowed from Great Britain.

The main thesis of *The Road to Prosperity*, which, according to Sir Josiah Stamp who contributed a Foreword to the book, represents "the highest common "factor" of the views of all economists, the depression in trade has arisen from efforts which the debtor countries of the world (including Germany) are making to pour goods into the creditor countries, "which do not pay "for any imports in return." Sir George Paish, despite all he has written in *The Road to Prosperity*, dare not blandly declare that Australia could pay the £50 millions Australia has to pay Great Britain in goods every year as interest on borrowings of capital without an excess of exports over imports of at least £50 millions.

Now, Australia does not possess an excess of exports. On the contrary, the foreign trade of Australia generally registers an excess of imports. In other words, Australia, far from paying interest in goods on previous borrowings, is continuing to borrow goods. Thus, it is a country that has an annual excess of imports, but should have an annual excess of exports, that Sir George Paish, with the approval of financiers, industrialists, businessmen and other economists, castigates for not "buying" enough British goods! Sir George Paish has not explained either in *The Road to Prosperity* or elsewhere, when, in his opinion, Australia (which is, according to Mr. A. Emil Davies, "the most persistent borrower in the "world") should commence to pay interest to Great Britain in goods—wool, wheat and other foodstuffs and raw materials.

All that Sir George Paish desires is that Canada and Australia should buy or borrow the largest possible quantities of British manufactures. Now, if Canada buys British manufactures for cash—that is against shipments of foodstuffs, raw materials and other goods—Great Britain will benefit to the extent of the foodstuffs, raw materials and other goods Great Britain receives from Canada. So much will be granted even by Sir George Paish.

If, instead of taking manufactures from Great Britain in exchange, Canada makes a present—pays tribute—to the extent of £60 millions in foodstuffs, raw materials and other goods, Great Britain must, obviously, benefit to that extent. That, however, is precisely what Sir George Paish disputes. He argues that it is economically disastrous to Great Britain to receive £60 millions of foodstuffs, raw materials and other goods in payment of interest, whereas if £60 millions were received in foodstuffs, raw materials and other goods against exports of British goods there would be great prosperity in Great Britain! Adam Smith would turn in his grave if he were made conscious of the contents of *The Road to Prosperity*, and *The Road to Prosperity*, as Sir Josiah Stamp says, represents "the highest common factor" of the views of all living economists.

The President of the Board of Trade of Great Britain, Sir Philip Cunliffe-Lister, in the speech that he delivered on the trade situation in the House of Commons on July 25, 1927, argued that one bright spot in the situation was the increase of exports of goods from Great Britain to the rest of the British Empire. Since the self-governing British dominions, India and the colonies are debtors of Great Britain, they can meet their annually increasing interest obligations in Great Britain only by pouring increasing quantities of goods into Great Britain. Nevertheless, *The Manchester Guardian Commercial*, a Free

Trade paper, conspicuously published an article from "a statistical correspondent" in which the increase of imports into Great Britain from the rest of the British Empire was deplored. The correspondent wrote:

> The argument that the Empire market was developing in a way which would increase British trade was based on figures showing that the countries of the British Empire were taking a larger percentage of our exports and sending to us a larger proportion of our imports in 1925 than was the case in 1913.
>
> PROPORTION OF IMPORTS INTO AND EXPORTS FROM UNITED KINGDOM FOR WHICH THE COUNTRIES OF THE BRITISH EMPIRE WERE RESPONSIBLE.
>
> | | Imports, per cent. | Exports, per cent. |
> |---|---|---|
> | 1913 . . . . . . | 24·8 | 37·2 |
> | 1925 . . . . . . | 29·6 | 39·2 |
>
> Taking Sir Philip's statistics as he produces them, the development shown is not so satisfactory as he apparently considered.
>
> *It will be noticed that the increase between* 1913 *and* 1925 *is greater in the case of imports than in the case of exports. Our increased taking of goods from the Empire is apparently not producing a similar increase in their consumption of goods from this country.*
>
> This is but one sign of many that the attempts to develop the Empire as a water-tight trading area is providing greater advantages for the Empire markets than for the United Kingdom.

If the countries that have borrowed capital from Great Britain are to pay the interest on their borrowings, they must sell in Great Britain goods to a higher value than the value of their own purchases in Great Britain. It is impossible that their purchases in Great Britain should equal Great Britain's purchases from them (even, after making full allowance for all the complications of international trade). Most emphatically, "our increased "taking of goods from the Empire" should not produce "a similar increase in their consumption of goods from "this country."

The Argentine, as a debtor country, should pour goods into Great Britain greatly in excess of its own imports of goods and services from Great Britain. The following is a statement of the interest obligations of the Argentine:

> The Argentine is liable for invisible imports each year, which are conservatively estimated at £40 millions, in respect of service of the foreign debt (£8 millions), dividends and interest on foreign capital invested in railway and commercial enterprises (£18 millions), interest on mortgages held abroad (£3 millions) and remittances of Spanish, Italian and other residents (£10 millions).
>
> The country, therefore, requires at least a favourable balance to this amount to attain equilibrium of exchange.—*Report of the Commercial Secretary to his Majesty's Legation, Buenos-Aires, September 1923, P. 17.*

The Argentine " buys " more goods from the United States of America than the United States of America buys from the Argentine, the explanation being that much of the goods the Argentine " buys " from the United States of America are not purchases but borrowings. The United States of America does not import goods from the Argentine to the extent of the exports of the United States of America to the Argentine, and the Argentine has thus been forced to receive goods on credit from the United States of America. Naturally, resentment has been aroused in the Argentine against the United States of America. The Argentine has been endeavouring during the past two or three years to limit its imports from the United States of America to the amount of the imports of the United States of America from the Argentine. The propaganda in the Argentine against the import of goods into the Argentine from the United States of America has been crystallized in a very misleading phrase, " Buy from those who buy from you."

In Great Britain, the Argentine slogan, " Buy from " those who buy from you," has been welcomed, because Great Britain " buys " in each year more goods from the Argentine than the Argentine " buys " from Great Britain. Speaking in the House of Commons on July 25, 1927, the President of the Board of Trade, Sir Philip Cunliffe-Lister said:

There is one market which I may mention in view of the fact that a new state of relationship has opened with that great country, the Argentine Republic, a country with which we have enormous trade relations, a country which has, on its own initiative, started out there the comforting slogan, "Buy from those "who buy from you." By that they mean "Buy from Britain." —*Parliamentary Debates, House of Commons, Volume 207, Column 644.*

Owing to the enormous payments of interest that the Argentine has to make to Great Britain, the Argentine has to pour goods into Great Britain, which "do not "pay for imports in return." In other words, the Argentine——if the Argentine would pay interest in goods on its borrowings from Great Britain——can not afford to import goods from Great Britain to the full value of the amount of the goods that Great Britain imports from the Argentine. That is precisely what Sir Philip Cunliffe-Lister does not recognize. He hopes and expects that the Argentine would import goods from Great Britain to the full extent of the exports from the Argentine to Great Britain. If that happened——whatever compensations might arise from other international trade——the payment of interest in goods by the Argentine to Great Britain would be impossible. The point to be grasped is that since Great Britain is a creditor country, Great Britain can collect interest upon her investments only by an excess of imports of goods from the debtor countries.

Sir George Paish and his fellow-economists——both Free Trade and Protectionist——despite all their affected reverence for Adam Smith and all their prattle about Great Britain drawing an income from investments of capital in foreign lands, are most firmly opposed to foodstuffs, raw materials and other goods coming into the country in payment of interest or as "tribute."

It is impossible that, under the capitalist system, the receipt of foodstuffs, raw materials or other goods from the debtor countries as "tribute" or in payment of interests on the borrowings of the debtor countries should be welcome to the capitalist class in the creditor countries. The capitalist class have only one interest—the export of the maximum quantities of the goods produced by the mines, mills and factories that they own. So long as the main purpose of Great Britain is the export of goods, not the import of goods, an income from investments of capital made by Great Britain in lands overseas in the form of imports of foodstuffs, raw materials and other goods in payment of interest must inevitably be a source of embarrassment to the capitalist class in Great Britain. The reason is that, if large quantities of foodstuffs, raw materials and other goods entered the country as "tribute," less goods would be exported.

The pretence that the capitalists in Great Britain make investments of capital in oversea lands in order to ensure the import into Great Britain of large supplies of foodstuffs, raw materials and other goods in order to provide for an increased population on a higher standard of living is utterly disingenuous. The disingenuousness of that pretext is vividly demonstrated in the opposition of the capitalist class in Great Britain to the receipt of Reparations from Germany.

CHAPTER XXI

THE RECEIPT OF REPARATIONS FROM GERMANY

The Post-War Nightmare of the Capitalist System

FINANCIERS, bankers, industrialists, merchants, economists and politicians in Great Britain, France, Belgium and the other countries that emerged victorious in the World War of 1914–18 are strongly opposed to the collection of Reparations from Germany——not from a conviction that the imposition of Reparations upon the German people is unjust or from a belated feeling of magnanimity to a fallen foe, but solely from the anxiety, openly avowed, that the receipt by the victorious countries of Reparations from Germany would prove an economic disaster (not to Germany) but to the victorious countries themselves!

The nightmare, with which the creditors of Germany, that is, Great Britain, France, Belgium and the other countries victorious in the World War of 1914–18 are faced under the capitalist system, has been revealed in clear and precise terms by Sir George Paish in *The Road to Prosperity*, a book that has been warmly commended by men dominant in the financial and commercial world.

Sir George Paish argues that the receipt of Reparations by the Allies would bring economic ruin upon the Allies. He writes:

> Are the allied nations well advised in insisting upon the payment of these great annual sums for Reparations for an indefinite number of years? *Will they not be much better off without them?* . . .
> At any rate will it not be advisable for them to agree to a reduction in German Reparation payments and deliveries to a point that will not affect the selling power of their own mines and industries?—"*The Road to Prosperity*," *P. 105.*

Sir George Paish is very far from being the only economist who has so unashamedly pleaded for the abandonment of the collection of Reparations upon economic grounds. Professor Gustav Cassel has expressed himself with equal ingenuousness.

> If these [Reparation] claims are to be fulfilled, Germany must export on an enormous scale, and must find a market for its goods by means of an adequate reduction of prices.
>
> The consequence of this must be *a very serious disturbance of the existing conditions of production and trade.*
>
> The only way to avoid these undesirable consequences is, without doubt, *to reduce reparation claims to reasonable proportions.*—"*Money and Foreign Exchange after 1914,*" *Pp. 159–60.*

The main thesis of *The Road to Prosperity* is that the collapse of production and of employment in the industrial countries of Europe (including Germany) is the exaction of Reparations from Germany by Great Britain and its allies. Sir George Paish writes:

> The Reparation payments now being made by Germany are indeed in no small measure responsible for the trade depression in so many continental countries and in Great Britain.—"*The Road to Prosperity,*" *P. 101.*

According to Sir George Paish, it is to the economic advantage of France to re-build all her devastated areas out of her own resources rather than with the aid of a ton of coal or a truck-load of timber from Germany! That view is not expressed in language of some obscurity under the guise of palliating sophisms but in clear and definite terms with the most callous audacity. Sir George Paish does not say, as most of the other economists have said, that the payment of Reparations would be a great benefit to Germany. Reparations, according to Sir George Paish, is twice cursed. It curses him that gives and him that takes.

Sir George Paish writes:

> The trouble about Reparations is *the injury* they cause not only to the German people, *but to the whole of Europe, including France and Great Britain.*

In the first place, there is not an unlimited demand for German products, and the remittance of the Reparations, both in bills of exchange and in kind, substantially reduces German buying power.

This is a matter of moment to all the countries and industries which under normal conditions find a large and ready market for their products in Germany—France, Belgium, Great Britain, Poland, Czechoslovakia, Austria, Holland, Sweden, Denmark, Switzerland, and other States.

Moreover, were it not for her borrowings in New York, these Reparation payments would seriously affect Germany's purchases from the United States.—"*The Road to Prosperity*," *P. 99*.

In that passage Sir George Paish has faithfully interpreted modern capitalist economic theory as it applies to the collection of Reparations from Germany. He blandly states that the receipt of Reparations by Great Britain, France, Belgium and other creditors of Germany would be a disaster to Great Britain, France, Belgium and the other creditors of Germany. The explanation he gives is:

The remittance of the Reparations, both in bills of exchange and in kind, substantially reduces German buying power—*P. 99*.

It is perfectly true that by sending goods in payment of Reparations to Great Britain, France, Belgium and the other victorious countries, the buying power of Germany will be reduced. In other words, the German people will be compelled to go without certain goods that they are accustomed to import from Great Britain, France, Belgium and the other victors in the World War of 1914–18. That is a sacrifice that has been imposed upon Germany——rightly or wrongly——under the Treaty of Versailles. Germany can discharge its Reparations obligations only by sending to Great Britain, France, Belgium and the other victors in the World War, absolutely free——that is, without receiving in exchange goods of equal value from the victors——building material and other goods.

Sir George Paish is opposed to the receipt by the victors in the World War of 1914–18 of building material and other goods from Germany as Reparations, because the building material and other goods would come as a gift. According to Sir George Paish, it is a calamity to a country to receive goods for nothing. To the plain man of common sense Sir George Paish's argument, which directly contradicts all the professions of the economists (including Sir George Paish) must appear utterly bewildering.

Under the present capitalist system, Great Britain, France, Belgium and the other countries victorious in the World War of 1914–18 are in the paradoxical situation of not being able to absorb the goods that Germany is bound to send to Great Britain, France, Belgium and the other countries victorious in the World War in payment of Reparations. Germany is quite able to send goods to Great Britain and its allies, but Great Britain and its allies are, under the capitalist system, quite unable to receive goods from Germany. Germany's capacity of producing and delivering goods to Great Britain and its allies is enormous.

Sir George Paish continues his argument as follows:

> Secondly the receipt of the Reparation goods is *by no means an unmixed blessing to the countries to which they are sent.*
>
> Thus the iron and steel industry of Alsace-Lorraine *needs to sell* a large part of its products to Germany at the same time that it requires to buy from Germany coal for smelting and other purposes. *This coal is now received as Reparations.—P. 100.*

Sir George Paish's grievance is that "the coal for "smelting and other purposes" that France needs comes now as Reparations, that is, as a gift, from Germany. Is there any common sense reason why coal coming from Germany to France should be any the less valuable to France, because it comes as Reparations, that is, as a gift? Is it possible to conceive of anything more absurd than that France should refuse millions of tons of badly needed coal because the coal comes as a gift from Germany? Yet, that is the situation in which the capitalist system has placed France.

Sir George Paish argues that France should refuse to receive coal as a gift from Germany. Nevertheless, of France's sufferings and losses in the World War of 1914–18 he writes as follows:

> The nation which suffered physically the greatest injury from the war was France who in her effort to repair her devastations has burdened herself with a volume of indebtedness far beyond her capacity to honour and who, consequently, has been compelled to depreciate her currency in order to avoid complete bankruptcy.
>
> Moreover the productive power of France has been injured by the sacrifice in the war of a very large percentage of her male population. The effect of this has been felt by most of her industries, and more especially by her agricultural industry, the output of which was reduced in the war by about 40%, and which, owing to the lack of men, has not recovered to its pre-war volume.
>
> Even after every allowance is made for the re-acquisition of Alsace-Lorraine it is evident that the productive power and real income of France have seriously declined.
>
> Moreover, her internal injuries have been greatly accentuated by her external losses. In pre-war days France owned about £1,500 millions of good foreign investments; to-day almost the whole of these have been sold, lost, or pawned. . . .
>
> Beyond this France has incurred a foreign gold debt of about £1,500 millions.
>
> It is true that she is entitled to 52% of any sums paid by Germany for reparations. *The value of this asset is, however, highly problematical.*—"*The Road to Prosperity*," *Pp. 39–40.*

Sir George Paish thus recognizes that Reparations should off-set the internal and external losses of France, but he argues that France should apply itself to making good its losses during the World War of 1914–18 by throwing away the Reparations! Sir George Paish deplores that France has lost its income from investments of capital in foreign lands, but he objects to France balancing that loss by the receipt of Reparations. Sir George Paish laments that France has to make payments to the United States of America and Great Britain in settlement of the loans borrowed by France during the World War, but he does not see that the receipt of Reparations payments from Germany should help France to make payments to the United States of America and to Great Britain.

Sir George Paish argues against the receipt by France of coal in payment of Reparations, that is, as a gift. According to Sir George Paish, it would be very much better for France if, instead of taking the coal as a gift, France paid Germany for the coal by sending to Germany the products of "the iron and steel industry of "Alsace-Lorraine." That is the plain and only meaning of the words of Sir George Paish, who would be the last man to deny the accuracy of the interpretation put upon his words in this chapter. On the contrary, he would emphasize that interpretation.

To resume the quotation of his argument:

> But Germany previously paid for the iron and steel she bought by means of the coal and other products she sold in return. Now that Germany has to send the coal as Reparations, her means of paying for the Alsace iron and steel are impaired.—*P. 100.*

Undoubtedly. Germany must, therefore, now dispense with "the Alsace iron and steel" and make all the steel Germany requires itself, which Germany is quite able to do. The capacity of Germany to produce steel is vastly in excess of the needs of Germany, and the production of steel in Germany is now artificially restricted by the International Steel Combine. Germany produces much more steel than any other country in Europe.

Sir George Paish does not say, "Pity the poor German "people without iron or steel." He says, "Pity the poor "French people receiving coal for nothing, instead of "being obliged to send iron and steel to the German people "in payment." If the French people receive coal from Germany for nothing, instead of receiving coal against exports of Alsace iron and steel to Germany, the French people, says Sir George Paish, would be ruined! Is there a parallel to such nonsense in any other department of serious literature?

During the World War of 1914–18 the Germans dug millions of tons of coal out of the mines of France and Belgium for their own use. They carted it away to their own country without leaving anything behind in exchange. It is that coal that they are now returning. According to the reasoning of Sir George Paish, it is much better that the Germans do not return the coal they took away from France and Belgium between 1914 and 1918. If that is so, why, after the Armistice, were the Germans made to surrender all the machinery they removed from the mines, factories and mills and all the household furniture, linen and other property that they removed from the chateaus and villas of France and Belgium? Will Sir George Paish explain?

No one denies that if Germany is to pay Reparations Germany must considerably reduce its imports of goods. That might inflict hardship upon the German people. Whether hardship would be inflicted upon the German people or not is not the issue. The issue is whether or not the receipt of goods from Germany—coal, iron and steel goods, building material for houses (badly needed in Great Britain, France, Belgium, Italy, Poland, and every other country entitled to Reparations), cotton and woollen cloth, shoes, electrical goods, telephones and telephone equipment, wireless sets, sugar, beer and the other products that Germany exports—in payment of Reparations would add to the comfort and happiness of the people of Great Britain, France, Belgium and the other countries that, according to the Treaty of Versailles, suffered greatly as a result of the war which Germany imposed upon them.

None of the three million families in Great Britain, who are enduring housing conditions such as no human beings should ever have been called upon to endure, would agree with Sir George Paish and refuse to consent to Germany building three million cottages in Great Britain and presenting those cottages as a gift to Great Britain for distribution among those three million families in payment of Reparations to Great Britain.

Sir George Paish says:—

If the Reparation payments stimulated consumption to the extent needed to permit Germany to export as many goods in the ordinary way of business as she would do were there no Reparation payments, then there would be no drawback to the payments.—"*The Road to Prosperity*," *P. 101.*

Therein lies the key to the whole problem. It is the duty of economists like Sir George Paish to discover why it is that the economic system does not

stimulate consumption to the extent needed to permit Germany to export as many goods in the ordinary way of business as she would do were there no Reparation payments.

Instead of taking that course, Sir George Paish chooses to betray the real interests of the masses of the people of Great Britain and its allies and associates in the World War of 1914–18, the soldiers who died in the World War, believing that all the damage sustained by their country and by France and Belgium would be repaired out of Reparation payments, and the soldiers who were disabled in the World War and are now eking out their existences on exiguous pensions, and advocates the thoroughly disingenuous alternative of refusing to receive the Reparations.

Sir George Paish has used his prestige as an economist to mislead public opinion upon an issue that is nothing less than the weal or the woe of the masses of his own fellow countrymen and the weal or the woe of the masses of the peoples of France, Belgium, Italy, Poland, Yugoslavia and the other countries that are entitled to receive Reparations.

The basis of Sir George Paish's plea for the abandonment of the Reparations is as follows:

They [the Reparations] seriously reduce the buying power of Germany and therefore *the selling power of the industries not only of France, but of every country whose goods usually find a market in Germany.*—"*The Road to Prosperity*," *P. 101.*

The only object that Great Britain or France has in selling goods to Germany is to find the means of payment for goods that Great Britain or France imports from Germany. If goods produced by Germany are received in Great Britain or France as Reparations—that is, for nothing—there can be no conceivable reason why Great Britain or France should send goods to Germany.

In a Foreword to *The Road to Prosperity* Sir Josiah Stamp, who was a member of the Dawes Committee on Reparations and is a member of the Experts Committee to fix the total amount of the Reparations Germany should pay, writes:

> Sir George Paish has spent his life in economic synthesis, in observation on a wide scale, in discerning underlying tendencies, in seeing the wood without climbing the trees.
>
> It is a small matter that probably no fellow economist would subscribe to every single statement of fact he makes, would endorse every emphasis or support every detailed remedy.
>
> *It is a great matter that, if the highest common factor were taken of their views, the result would not be widely dissimilar from Sir George Paish's main thesis.*
>
> It is a still greater matter that, one by one, all our few experienced thinkers who can appreciate broad tendencies, should hack out, however roughly, great slabs of truth, as it appeals to each, for all the world to see.

"All the world" might well stand aghast at such "great slabs of truth." Reparations is an issue on which the economists and the financiers might very well be brought to trial before the bar of public opinion and the tribunal of common sense.

Sir Josiah Stamp says in the Foreword:

> More material welfare is coming to us all in the long run by a combined effort to produce the most.

It is scarcely credible that such a sentence should appear in a Foreword to a work, "the main thesis" of which is that the people of Great Britain should refuse to receive all the production that Germany might deliver in payment of Reparations. Those who are most strongly opposed to the receipt of Reparations coal in Great Britain are those who insisted most loudly upon the increase of the miner's working day from seven to eight hours. If the people of Great Britain must needs have a certain production of coal, why should it not come rather as a gift from Germany than as a result of the sweat of the British miner's brow during an extra hour of work?

Opposition to the collection of Reparations from Germany was led by Professor Maynard Keynes, who embodied his views in *The Economic Consequences of the Peace*. If the proposal of Professor Keynes that the amount to be claimed from Germany should not exceed the amount that Germany used to lend to other countries before 1914 had been accepted by the Governments of the Allied and Associated Powers, Germany would not have been, after the World War of 1914–18, a stronger competitor of Great Britain in lending capital to the colonial world than before the World War of 1914–18.

Professor Keynes knows enough of his subject to appreciate that consideration. Had his plea to treat the Germans magnanimously been accepted by President Wilson, Mr. Lloyd George and the other Allied statesmen in 1919, it would never have been necessary for Sir George Paish to write *The Road to Prosperity* and thus parade before the whole world the contradictions and the disgraces of the present capitalist system and the utter bewilderment of the economists. Professor Keynes is too able a man and is gifted with too much dialectical skill to write with the ingenuousness of Sir George Paish, but with all the ability and all the dialectical skill that Professor Keynes possesses he can not explain away the fact that the Reparations proposals that he submitted under the cover of a magnanimous consideration for Germany in *The Economic Consequences of the Peace* entirely harmonize with Sir George Paish's consideration for "the selling class" in Great Britain, France and Belgium. The one thing that Professor Keynes, as a capitalist, must, upon his own published economic doctrines, strive earnestly to prevent is an increase of the exports of Germany—even in payment of Reparations—to his own country, Great Britain, and to France, Belgium and the other victors in the World War of 1914–18.

Any man of ordinary intelligence and common sense who examines the problem of receiving Reparations from

Germany must at once see that there is a glaring contradiction in the capitalist system. While, as everybody is agreed since the publication of *The Wealth of Nations*, the material welfare of the people of a country can spring only from the existence in the country of the largest amount of goods, there are certain interests in the country——represented by the capitalist class and its apologists, the economists,——who are opposed to the increase of the quantity of goods in the country. Sir Josiah Stamp has described the problem of Great Britain and its allies receiving Reparations from Germany as a problem of trying to ride two horses at the same time with the horses going in opposite directions.

Men gifted with only plain common sense could understand the forgiving of the Reparations as an act of reconciliation with Germany, as a concession to the "Locarno spirit." What the economists, led by Professor Maynard Keynes, invite Great Britain and the other victors in the World War of 1914–18 to do is to confess to the whole world that, however just may be the claim to Reparations from Germany of Great Britain and its allies, however determined they may be to enforce it and however great may be the capacity of Germany to pay Reparations, it is so grave an economic disaster to Great Britain and its allies to receive Reparations from Germany that Great Britain and its allies must of necessity beseech Germany to stop the payment of the Reparations! Shylock will not have his pound of flesh. A Portia has come to judgment!

The abandonment of the Reparations, except as an undiluted act of political reconciliation, or upon the ground that the Reparations Clauses of the Treaty of Versailles violates the fourteen conditions on which Germany laid down its arms, would be an incalculable political disaster to the whole world. The fear of having to pay large Reparations in the event of unsuccessful war is one of the most effective deterrents of violations of peace. If the victors in the World War of 1914–18 now admit frankly and freely, that, however just the exaction of Reparations for damages sustained in war may be, they are an economic impossibility, the last safeguard of peace in capitalist Europe would be removed.

The security of Belgium and France and the integrity of Czechoslovakia, Poland, Rumania and Yugoslavia can be ensured without the collection of any further Reparations, but the abandonment of a single penny of the Reparations upon the arguments brought forward by economists like Professor Maynard Keynes, Professor Gustav Cassel and Sir George Paish, by bankers like Mr. Reginald McKenna, chairman of the Midland Bank, the largest private bank in the world, and by innumerable other members of the capitalist class or apologists of the capitalist class, would imperil the peace of capitalist Europe for all time. If the economists, the financiers and the capitalist class in Great Britain, France and Belgium settle the problem of Reparations from Germany, the world will be made safe for war, not democracy.

Mr. Hartley Withers, who has shown considerable ingenuity in writing between the contradictions of the economists and the financiers, has made a contribution to the subject of Reparations. To the credit of Mr. Withers it must be recorded that he denies the contention of the economists and the financiers that the receipt of Reparations would be an economic disaster to the victorious countries. He has ridiculed the standpoint of the economists:

> And so we seem to be led to the curious conclusion that the royal road to the capture of the world's trade lies through two gates, the first of which is currency debasement, *and the second is the obligation to pay a crushing indemnity.*—"*Bankers and Credit*," *P. 227.*

Mr. Withers' own solution of the problem over which the economists have stumbled affords a magnificent example of the capacity for self-deception that is so conspicuous a characteristic of writers on economic matters. His proposal is that the Allies should convert the Reparations into an export of capital to other countries! In other words, he proposes that the receipt of the Reparations in Great Britain be postponed as much as possible—till the Greek Kalends!

Mr. Withers does not explain why the victors in the World War of 1914–18, if they are to collect Reparations at all from Germany, should not bring the Reparations at once into their own countries and relieve themselves of the burdens of war taxation which are weighing so heavily upon their peoples. No one has excelled Mr. Withers in attacks on the Government for its failure to reduce taxation. Is it necessary that the entry of the Reparations into Great Britain to meet the war pensions should be postponed until all those who are receiving war pensions have gone to the grave and the war pensions have disappeared from the Budgets of Chancellors of the Exchequer?

The following are Mr. Withers' own words:

> If the time comes when our share of what she [Germany] pays is more than we need for the service of our debt to America, then we shall *have to lend* to other countries that want loans the proceeds of the goods that Germany exports on our account.
>
> For example, Germany can build railways in Russia, or if Russia has not returned within the economic community of nations, in Hungary, Rumania, Brazil or anywhere else; and Russia or whoever it may be will owe to us the railway which Germany will have built on our account *and so we shall rebuild part of our fabric of investment*, so much of which had to be pulled down during the war and exchanged for things that were more pressingly needed.—"*Bankers and Credit*," *P. 238.*

Mr. Withers does not explain why the Germans should be driven to build railways in Russia, Hungary, Rumania, Brazil or "anywhere else" in payment of Reparations, when the greatest need of Great Britain, France, Belgium, Italy and every one of the other victors in the World War of 1914–18—not excepting the United States of America—is adequate housing for the masses of their peoples. By the time Mr. Withers' book was written, namely, 1924, war passions had subsided, and even if there were objections to Germans re-building the East End of London in payment of Reparations, there were none at all to the delivery at the London docks of steel work, timber, bricks and the other materials required for the construction of houses. The contention of Mr. Withers is that the Reparations to be paid to Great Britain must go " anywhere else " but Great Britain!

Sir George Paish argues that Great Britain should forgive the French war debt, not as a generous act of recognition of the terrible sacrifices of that country in the World War of 1914–18 or as a gift of friendship, but on the sole ground that it would be an economic disaster to Great Britain to collect either the interest or the principal! Now, it happens that the debt France owes Great Britain is a debt owed by the French Government to the British Government, and even Sir George Paish will not deny that the collection of that debt would enable the Chancellor of the Exchequer to make a corresponding reduction in taxation. The Government is accused by men like Sir George Paish of maintaining taxation at too high a level and thus obstructing " the " revival of trade," but the Government is simultaneously asked to throw away a means by which taxation might be reduced! It is the contradictions of the capitalist system that gave rise to the Balfour Note, which, under the cloak of magnanimity, sacrificed the interests of the masses of the people of Great Britain to the interests of the capitalist class in Great Britain.

CHAPTER XXII

THE PURPOSE OF FOREIGN TRADE

The Contradictions Involved in the Capitalist System

DENOUNCING the economic and foreign trade policies of the eighteenth century that were described as Mercantilism, Adam Smith wrote :—

> The encouragement of exportation and the discouragement of importation are the two great engines by which the Mercantile system proposes to enrich every country.—"*The Wealth of Nations*," *Book IV*, *Chapter VIII* (*Cannan's Edition*, *Volume II*, *P. 141*).

The principal purpose of *The Wealth of Nations* was to demonstrate that the wealth of a country consists in all goods and services that minister to the wants of human beings and that the proper purpose of foreign trade is to increase the amount of the imports of goods and services into a country. Adam Smith vigorously attacked and ridiculed all the restrictions upon imports of goods and services into Great Britain and other countries in the eighteenth century, because he believed that it was the restrictions imposed by the laws that were responsible for the excess of exports of goods and services. Adam Smith wrote :

> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it.
>
> But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.—"*The Wealth of Nations*," *Book IV*, *Chapter VIII* (*Cannan's Edition*, *Volume II*, *P. 159*).

Even before the publication of *The Wealth of Nations* it was recognized and admitted that the economic welfare of a community depended upon an abundance of goods, whether produced in the country or imported from other countries, but the politicians, the economists and the practical men of business in the eighteenth century found it as difficult to put that principle into practice as the politicians, the economists and the practical men of business of today. Adam Smith records:

Some of the best English writers upon commerce set out with observing, that the wealth of a country consists, not in its gold and silver only, but in its lands, houses and consumable goods of all different kinds.

In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce.—" *The Wealth of Nations,*" *Book IV, Chapter I (Cannan's Edition, Volume I, P. 416).*

The very phraseology of modern capitalist economic doctrine and policy is identical with the phraseology of the Mercantilists. John Stuart Mill, outlining the doctrine of Adam Smith and contrasting it with " the " vulgar theory " of the Mercantilists, wrote as follows:

According to the doctrine now stated, [the doctrine of Adam Smith] the only direct advantage of foreign commerce consists in the imports. . . .

The vulgar theory disregards this benefit, and deems the advantage of commerce to reside in the exports; as if not what a country obtains, but what it parts with, by its foreign trade, was supposed to constitute the gain to it.

An extended market for its produce—an abundant consumption for its goods—a vent for its surplus—are the phrases by which it has been customary to designate the uses and recommendations of commerce with foreign countries.

This notion is intelligible, when we consider that the authors and leaders of opinion on mercantile questions have always hitherto been the selling class.

It is in truth a surviving relic of the Mercantile Theory, according to which, money being the only wealth, selling, or, in other words, exchanging goods for money, was (to countries without mines of

CHAPTER XXII

THE PURPOSE OF FOREIGN TRADE

The Contradictions Involved in the Capitalist System

DENOUNCING the economic and foreign trade policies of the eighteenth century that were described as Mercantilism, Adam Smith wrote :—

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> *It is in truth a surviving relic of the Mercantile Theory*, according to which, money being the only wealth, selling, or, in other words, exchanging goods for money, was (to countries without mines of

their own) the only way of growing rich—and importation of goods, that is to say, parting with money, was so much subtracted from the benefit.—"*Principles of Political Economy,*" *Book III, Chapter XVII* (*Ashley's Edition, Pp.* 578–79).

" An extended market for its produce," " an abundant " consumption for its goods," " a vent for its surplus "—these are phrases that one might find in a speech of Mr. Stanley Baldwin or in a speech of Mr. Lloyd George, in a leading article in *The Times* or in a leading article in *The Daily News*, in a book by Professor Maynard Keynes or in a book by Professor Cassel.

Modern economic literature is remarkable for the absence of any attempt to explain why, when, as demonstrated by Adam Smith, wealth consists in goods, the export of goods—even in excess of what is needed to pay for imports—is the principal object of the economy of a country under the capitalist system.

Mr. Arthur Michael Samuel, Financial Secretary of the British Treasury, has, in the Memorandum on the Balance of Trade that he prepared for the Association of British Chambers of Commerce, essayed to explain why the expansion of exports is the principal objective of the economy of a country under the capitalist system. Mr. Samuel writes:

> The individual, in a nation of individuals, finds himself richer or poorer at the end of the year, according as his income (receipts) exceeds, or falls short of, his expenditure (outgoings). How far is this true of a nation in a community of nations?
>
> The income and expenditure of an individual find their analogy in the exports and imports of a nation. Exports are sold and the proceeds are receipts or income; imports have to be paid for, they correspond to the expenditure of an individual.

The money used in internal trade consists—almost entirely in most countries today—of currency notes, and in the bill of exchange of international trade there is the exact counterpart of the currency note in the internal trade of a country. It is, therefore, the bills of exchange arising out of exports that correspond to the money income of an individual, and the bills of exchange arising out of imports that correspond to the money expenditure of an individual.

The analogy that Mr. Samuel has drawn between exports and income and between imports and expenditure is utterly false. The income of an individual corresponds to the bills of exchange that arise out of exports and not to the goods or services that are sent out of a country. In the same way, the expenditure of an individual corresponds to the bills of exchange arising out of the imports of goods and services into a country, not to the goods and services themselves.

The produce that a farmer takes to market are the exports of the farm. The clothes, shoes, manures and other goods that the farmer brings home from the market are the imports of the farm. The money that the farmer receives for his produce is his income. The money that the farmer pays out when he buys clothes, shoes, manures and other goods is his expenditure. Mr. Samuel argues that the produce that the farmer takes to market is his money income and that the clothes, shoes, manures and other goods that the farmer brings home with him is his money expenditure. Mr. Samuel has reversed the meaning of two very simple words.

The meaning of the terms, income and expenditure, is explained in the most elementary dictionaries, in the most elementary books on book-keeping and in the most elementary text-books on Economics. Professor Gustav Cassel writes:

> The sum of money which the individual economy acquires during a certain period is its proper "income." Of this sum it may dispose of as it wishes.
>
> *The various material goods and services which constitute the real income of the economy* take a secondary place as special uses of the sum of money, which is regarded as the single and essential con stituent of the income.—"*The Theory of Social Economy*," *Volume I*, *P. 57*.

There is, moreover, a contradiction in the very terms of the analogy that Mr. Samuel has drawn. He says in one sentence:

> The income and expenditure of the individual find their analogy in the exports and imports of a nation,

and in the next:

> Exports are sold, and *the proceeds* are receipts or income.

Both " exports " and " the proceeds " of exports can not be " receipts or income." Exports and " proceeds " of exports can not be the same thing. One need not be an economist nor a financier to understand that exports are the goods or services that go out of a country and that the " proceeds " of exports are the gold, silver or bills of exchange (paper money) that are accepted in payment of the exports of goods or services.

In order to justify an excess of exports, Mr. Samuel has given exports the attributes of imports and imports the attributes of exports. That is very astonishing, because Mr. Samuel says in his essay on the Bill of Exchange:

> Overseas or international trade reduced to its basic state is always barter, sometimes pure barter, sometimes barter in a disguised form. Goods are sent abroad and other goods are received back in payment.—" *The Working of the Bill of Exchange*," *P. 8.*

Now, if " other goods are received back in payment " of exports, it is only common sense that " other goods " should be received back in payment to the full extent of the exports. Nevertheless, Mr. Samuel states that a nation is " richer or poorer," at the end of a year, according as its exports exceed or fall short of its imports. In other words, according to Mr. Samuel, a country is richer if it receives part payment for the goods it sends out, and a country is poorer if it receives full payment for the goods it sends out.

The modern capitalist system, like the mercantilist system, in the words of Adam Smith,

> seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.

That is why Mr. Samuel has attempted, by confounding imports with exports and exports with imports, to show that a country gains by sending goods out and loses by bringing goods in.

Mr. Samuel is not the only writer in recent times who has endeavoured to obscure the fact that "the ultimate "end and object" of the economy of a country under the capitalist system are contrary to the real interests of the masses of the people of the country. Messrs. William Trufant Foster and Waddill Catchings of the Pollak Foundation for Economic Research in the United States of America have ventured to explain away the conflict between the capitalist system and the economic welfare of the masses of mankind by arguing that, since the introduction of money, trade has ceased to be an exchange of goods and services for goods and services. Messrs. Foster and Catchings write:

> The change from barter to money, far from being a mere matter of convenience, is fraught with such far-reaching consequences that *some of the traditional economic principles, based as they usually have been upon barter-trading*, do not apply to the currency and credit-trading world of today. . . .
>
> Whatever the pioneer took to a barter market was his demand and another man's supply; whatever he carted back to his clearing in the woods was his supply and another man's demand. Each transaction was complete: the barter balance was perfect.
>
> The primitive community produced what it consumed and consumed what it produced; but the intrusion of money at once made possible the overthrow of that balance.—"*Profits*," P. 4.
>
> *But the way to clarity is not through ignoring money and focussing attention upon goods, as we are often adjured to do.*—"*Money*," *P. 12.*

Messrs. Foster and Catchings are presumably unaware that they are advocating the naked Mercantilism of the eighteenth century. It is not necessary to quote Adam Smith or John Stuart Mill against Messrs. Foster and Catchings. The answer to them has been provided by the world's greatest living capitalist, Mr. Henry Ford. Mr. Ford writes:

> The only reason for growing crops, for mining, or for manufacturing, is that people may eat, keep warm, have clothing to wear, and articles to use.

There is no other possible reason, yet that reason is forced into the background and instead we have operations carried on, not to the end of service, but to the end of making money—*and this because we have evolved a system of money that instead of being a convenient medium of exchange*, is at times a barrier to exchange.—"*My Life and Work*," P. *132*.

The balance of trade, as already demonstrated, has given rise to imports of the precious metals into the chief trading countries of Europe and to the United States of America on a larger scale since the publication of *The Wealth of Nations* than could even have been conceived of before the publication of *The Wealth of Nations*.

The only difference between foreign trade policy before the publication of *The Wealth of Nations* and foreign trade policy today is that, whereas before the publication of *The Wealth of Nations*, the economists argued that the export surplus was created for the purpose of importing the precious metals, the Free Trader or the Protectionist of today argues that the export surplus might be liquidated either in the precious metals or in precarious paper.

The Mercantilists did not commit the blunder of giving hostages to Russian Bolshevists or South American brigands. Imports of gold and silver in liquidation of an export surplus at least have the recommendation that they can not depreciate like the bonds that were issued by some republics in South America or be repudiated like the bonds that were issued by the Tzarist Government of Russia.

That the export surplus or the export of capital is a survival of the conditions that the publication of *The Wealth of Nations* is supposed to have altered has not entirely escaped notice in modern economic literature. Mr. R. G. Hawtrey writes:

In the export of capital we find *the solution of that excess of exports which is dear to the heart of the mercantilist*, and the possibility of which the classical economist was inclined to challenge.

In the early days of the mercantilist doctrine the idea of the export of capital had hardly emerged into the light.

The mercantilist felt in his bones that it was a good thing to export, and to acquire credits abroad, which the country should not dissipate in the acquisition of imports but should hold. Yet he could not imagine any form in which those credits could be embodied except specie.—" *The Economic Problem*," *P. 280.*

The theoretical justification of the export of capital or of the surplus of exports is that it gives rise to an increase of imports in the form of goods received in payment of interest. While, however, the politicians, the economists, the financiers, the businessmen and the industrialists are waxing eloquent on the blessings that a hypothetical income from investments confers upon a creditor country, there is nothing that they more earnestly desire than that imports might decrease and exports might increase, so that still larger exports of capital might be made.

The export of capital is thus described by Professor Alfred Marshall:

When a country lends abroad £1,000,000 in any form, she gives foreigners the power of taking from her £1,000,000 of goods; while she herself does not, for the time being get any goods in return.—" *Money, Credit and Commerce*," *P. 136.*

That is precisely what Great Britain, with several millions of her population on the verge of starvation, has been doing during the past ten years and did during the hundred years that preceded the World War of 1914–18.

The export of goods on credit is, at best, a provision for posterity. The capitalists in Great Britain betray a singular insensibility to realities by making problematical provision for a remote posterity, when the productive capacity of Great Britain should be used to increase the present supplies of foodstuffs, clothes, shoes, housing and the other necessaries of life to the masses of the people, following upon the privations of the later stages of the World War of 1914–18. Even granting for the sake of argument that the export of capital from Great Britain gives rise, after some years, to an income in the form of imports of foodstuffs, raw materials and other goods, the export of capital is a tortuous means of ensuring an inflow of foodstuffs, raw materials and other goods for the satisfaction of the needs of the people in "the derelict areas" of Great Britain, the rest of the unemployed and even the employed. The income of foodstuffs, raw materials and other goods from the exported capital can not be realized until at least some years have elapsed. The situation is Gilbertian in its absurdity. The policy is Machiavellian in its callous contempt of human suffering.

Adam Smith, it must be admitted, saw no objection to the export of capital, as he believed that the export of capital would give rise to imports of goods in payment of the interest. He had no opportunity of analysing how the export of capital from a country arises or of analysing the results produced by the export of capital. It would be both unjust and absurd to discount the great and lasting contribution that Adam Smith made to the elucidation of economic truth by condemning him for failure to look beyond his day.

To the export of capital or an excess of exports of goods and services John Stuart Mill, whose *Principles of Political Economy* was first published in 1848, was, with the insight of genius, uncompromisingly opposed, although he could argue against the excess of exports only theoretically and could not explain how it arose. John Stuart Mill wrote:

> The notion that money alone is wealth has been long defunct, but it has left many of its progeny behind it; and even its destroyer, Adam Smith, retained some opinions which it is impossible to trace to any other origin.
>
> Adam Smith's theory of the benefit of foreign trade was that it afforded an outlet for the surplus produce of a country, and enabled a portion of the capital of the country to replace itself with a profit. These expressions suggest ideas inconsistent with a clear conception of the phenomena.
>
> The expression, surplus produce, seems to imply that a country is under some kind of necessity of producing the corn or the cloth which it exports; so that the portion which it does not itself consume, if not wanted and consumed elsewhere, would either be

produced in sheer waste, or, if it were not produced, the corresponding portion of capital would remain idle, and the mass of productions in the country would be diminished by so much.

Either of these suppositions would be entirely erroneous. The country produces an exportable article in excess of its own wants from no inherent necessity, but as the cheapest mode of supplying itself with other things.

If prevented from exporting this surplus, it would cease to produce it, and would no longer import anything, being unable to give an equivalent; but the labour and capital which had been employed in producing with a view to exportation, would find employment in producing those desirable objects which were previously brought from abroad; or, if some of them could not be produced, in producing substitutes for them.—"*Principles of Political Economy*," *Book III*, *Chapter XVII* (*Ashley's Edition*, *Pp.* 579–80).

The capitalists who own the production of the fields, mines, mills and factories in a country do not know why it is that, under the capitalist system, they are unable to distribute among the masses of the people in the country the goods that are produced. They do realize, however, that they must dispose of in one way or another the production of the fields, mines, mills and factories. Therefore, the capitalists who own the production of the fields, mines, mills and factories in a country dump on credit the production that is not absorbed in the country upon any other country that will let the production come in.

It is the necessity that the capitalist who own the production of fields, mines, mills and factories experience to dispose of the production that is in excess of their own capacity of consumption, use or distribution under the capitalist system that compels the capitalists who own the production of fields, mines, mills and factories in every country to search in other countries for "vents for "their surplus," "an abundant consumption for their "goods," "an extended market for their produce."

If the production of a country were not owned by a small class of capitalists the production would either go directly into consumption or be exchanged for the production of other countries. There would, then, be no exports of capital. The exports of capital that have been made from Great Britain, France, Germany, Holland, Belgium and the United States of America have arisen entirely from the fact that, under the capitalist system, a small class of capitalists retain for themselves a share of the production of the country that is vastly in excess of all the means they command of using or consuming it in their own country. The export of capital from a country thus arises not because a country is wealthy but because a small class of capitalists in that country own a very large share of the total production of the country. That is why there are exports of capital from admittedly poor countries like India.

There is no economic interdependence among the various countries of the world other than the interdependence arising out of the mere exchange of goods and services. That, however, is not the accepted view. The Labour or Socialist Government of Mr. Ramsay Macdonald in Great Britain in 1924, for example, appointed the Balfour Committee to discover

> the prospect of British participation in the markets of the world being such as to ensure sufficient and continuous employment and a satisfactory standard of living in this country.

" Sufficient and continuous employment and a satis-" factory standard of living " in Great Britain have no connexion whatever with the foreign trade of Great Britain. The only function of the foreign trade of Great Britain is to bring into the ports of Great Britain certain foodstuffs, raw materials and other goods that the people of Great Britain have not the means or have not the inclination to produce. Once all the foodstuffs, raw materials and other goods that the people of Great Britain require are brought into the country, " sufficient and " continuous employment and a satisfactory standard of " living " in Great Britain are entirely dependent upon the internal economic organization of Great Britain.

Large-scale unemployment in Great Britain arises, not from a decline in foreign trade, but from the power that the capitalist class has of maintaining the masses of the people at the bare subsistence level. By limiting the quantities of the necessaries and the comforts of life that the masses of the people might enjoy, the capitalist class has artificially reduced the total quantity of goods that the whole people use or consume. With the advancement of science and invention the quantity of goods now used or consumed in a country is produced with considerably less labour than in ages gone by, and the labour of many millions has thus, under the capitalist system, become superfluous in the industrial countries of Europe. The unemployed can be employed only in providing for their own necessities.

The fact that Great Britain does not import in each year a hundred or two hundred millions of pounds sterling worth of foodstuffs, raw materials and other goods badly needed by the masses of the people of Great Britain proves decisively that the present appalling condition of the masses of the people of Great Britain is in no way due to the inability of Great Britain to pay for imports of foodstuffs, raw materials and other goods. The export trade of Great Britain is not serving the purpose of bringing into Great Britain the largest quantities of foodstuffs, raw materials and other goods that the masses of the people of Great Britain require. The export trade of Great Britain is merely a means by which the owners of the fields, mines, mills and factories of Great Britain have hitherto succeeded in depriving the masses of the people of Great Britain of a very large part of the fruits of their labour in production.

That a people may get wealthy by foreign trade is a dangerous half-truth. The people of Great Britain could, certainly, increase their wealth by exchanging small quantities of manufactures for large quantities of raw materials, but the industrialists of Great Britain and the industrial countries of Europe are following a diametrically opposite policy, and, as shown by the fact that their export prices are less than their home prices, are disposing of their manufactures to farmers in foreign countries for smaller quantities of foodstuffs and raw materials than they exact from the farmers at home. The wealth of a country springs entirely from its own production, and how little or how much of that production is exchanged for the production of other countries is of purely subordinate interest. Even if certain foodstuffs and raw materials can not, for one reason or another, be brought into a country, the inhabitants of that country could attain the highest degree of economic prosperity. The absence of those particular foodstuffs or raw materials would merely inflict certain inconveniences upon the people of the country. " Suffi-" cient employment and a satisfactory standard of living " should not in the slightest degree be affected by the impossibility of importing certain foodstuffs and raw materials.

The economic prosperity of a country is entirely independent of the economic prosperity or the economic poverty of other countries. The prosperity of Great Britain, for example, is in no way dependent upon the prosperity of Germany or Czechoslovakia, of Australia or the Argentine. The volume of the foreign trade of Great Britain is no index of the prosperity of Great Britain, and an increase in the volume of the foreign trade of Great Britain is by no means essential to the improvement of the economic condition of Great Britain. The people of Great Britain could be twice as prosperous as they are today with half the foreign trade they have today.

CHAPTER XXIII

THE MYTH OF MERCANTILISM

The Movement of the Precious Metals in International Trade

THE circumstance that the precious metals, gold and silver, are used chiefly for the coinage of money has tended to obscure the fact that the precious metals are commodities or goods. In international trade, as already explained, the exports of goods and services balance the imports of goods and services unless a part is given or received on loan. If a country desires to import certain goods and is unable to export iron ore, coal, manufactures or wheat, the country could obtain those goods on loan or pay for those goods by the export of any quantity of the precious metals that the country could spare. In the same way, if a country has imported all the goods that its inhabitants desire and finds that it still has a surplus of its own production, the country could export that surplus on credit or against imports of the precious metals.

So simple an explanation of the movements of the precious metals in international trade has, remarkable to say, never found acceptance among economists and other writers on the subject. In the eighteenth century, as shown in the previous chapter, the explanation given was that people believed that wealth consisted only in the precious metals and that, as countries engaged in trade for the purpose of increasing their wealth, the import of the precious metals was the sole objective of the foreign trade of a country.

The Mercantile Theory of Trade is thus described by John Stuart Mill:

According to the doctrines then prevalent, whatever tended to heap up money or bullion in a country added to its wealth. Whatever sent the precious metals out of a country impoverished it.

If a country possessed no gold or silver mines, the only industry by which it could be enriched was foreign trade, being the only one which could bring in money. Any branch of trade which was supposed to send out more money than it brought in, however ample and valuable might be the returns in another shape, was looked upon as a losing trade.

Exportation of goods was favoured and encouraged (even by means extremely onerous to the real resources of the country), because, the exported goods being stipulated to be paid for in money, it was hoped that the returns would actually be made in gold and silver.

Importation of anything, other than the precious metals, was regarded as a loss to the nation of the whole price of the things imported; unless they were brought in to be re-exported at a profit, or unless, being the materials or instruments of some industry practised in the country itself, they gave the power of producing exportable articles at smaller cost, and thereby effecting a larger exportation.—"*Principles of Political Economy*," *Preliminary Remarks (Ashley's Edition, Pp. 2–3).*

Now, it is necessary to bear in mind that the people who engaged in foreign trade were the merchants, to each of whom individually and to all of whom collectively it was a matter of complete indifference what exactly was the total quantity of the precious metals in the country. As Adam Smith, the most celebrated of the economists who attacked the Mercantile Theory of Trade, himself remarks:

The merchants knew perfectly in what manner it [foreign trade] enriched themselves. It was their business to know it. But to know in what manner it enriched the country, was no part of their business.

The merchants and manufacturers of the eighteenth century, like the merchants and manufacturers of today, had no other interest than the sale of their goods at a profit either at home or abroad. So long as they sold their goods in satisfactory quantities, the quantity of gold and silver in the country was of no interest to them. In the circumstances it is quite absurd to argue, although it has always been so argued, that the importation of the precious metals was the purpose for which merchants and manufacturers engaged in trade in the eighteenth century or at any other time before or after that period.

Adam Smith found it difficult to believe that the Mercantile Theory was an article of serious economic faith. He says:

> It would be too ridiculous to go about seriously to prove, that wealth does not consist in money, or in gold and silver; but in what money purchases, and is valuable only for purchasing.—" *The Wealth of Nations*," *Book IV*, *Chapter I* (*Cannan's Edition*, *Volume I*, *P.* *404*).

The fact that until the nineteenth century there were laws in Great Britain and in other countries in Europe which were, apparently, based upon the Mercantile Theory of Trade and discouraged the import of anything but the precious metals does not prove that the import of the precious metals was the purpose for which merchants and manufacturers engaged in foreign trade. The sole interest of the exporting merchants and manufacturers was the export of goods for sale in foreign lands. They had no interest whatever in the import of goods. Like the manufacturers of today, they looked upon the entry of foreign goods into the country as an invasion of the home market and were anxious to prevent the entry of foreign goods into the country. From the point of view of the manufacturers in the country the most desirable imports were imports of the precious metals which could not enter into competition with the products of the manufacturers.

An increase in the imports of goods would not, however, have disturbed the equanimity of prosperous exporting merchants and manufacturers. What they might have noticed was that an increase in the exports of goods led to an increase in the imports of the precious metals. The exporting merchants and manufacturers probably did also understand that, if a country exported goods, it could receive payment only in other goods or in the precious metals. Therefore, on those occasions on which it "became necessary to say something about the "beneficial effects of foreign trade," the exporting merchants and manufacturers were, quite naturally, content to explain that a country was enriched by the amount of the precious metals that was brought in by foreign trade. Whether it was so or not could not have been of much concern to the exporting merchants and manufacturers. What the exporting merchants and manufacturers did realize was that the more goods they exported, the richer they became.

A bricklayer never pretends that he selected his occupation in order that his fellow-citizens might be properly housed. A lawyer does not ask any one to believe that his choice of a profession was inspired by a desire to prevent miscarriages of justice. Even a doctor does not claim that motives of humanity led him to undertake the study and practice of medicine. Bricklayers, lawyers and doctors, in common with the followers of most professions, occupations and trades, are candid enough to avow that their principal reason for adopting the vocations in which they are engaged is the earning of a living or their own monetary advantage in a capitalist world.

Merchants and manufacturers alone pose as public benefactors. They engage in foreign trade or in industry not in order to amass wealth for themselves but in order to enrich the country as a whole, assure employment to the working classes, develop new lands overseas, promote civilization, eliminate the causes of wars and generally pave the way for the millenium. The explanation of all those affectations is perfectly simple. Merchants and manufacturers very early made the discovery that the political authority and power of the state could be used to promote their individual interests. It was, therefore, highly desirable to convince the governing authorities and the community at large that, in promoting the private interests of merchants and manufacturers, the state was serving the highest interests of the masses of the people of the country as a whole.

In the days in which the Mercantile Theory of Trade was supposed to shape the economy of a civilized country kings and governments had little or no interest at all in the material welfare of their peoples. The principal occupation of kings was foreign wars. Now war, it is almost superfluous to point out, involves the expenditure of considerable amounts of wealth in foreign countries. If a king went to war with a foreign state, it became necessary for him to despatch a fleet or an army or both to some foreign land.

The maintenance of a fleet off a foreign coast or of an army in a foreign country can be effected only by the despatch from the home country of large quantities of munitions of war, food, clothing and other goods or by the shipment of the precious metals for the purchase of the requirements of the fighting forces in the regions in which they are operating. Before the invention of the steam engine the transport of supplies of food to an army either by sea or by land was impossible.

Adam Smith recognized that. He writes:

> No foreign war of great expence or duration could conveniently be carried on by the exportation of the rude produce of the soil. The expence of sending such a quantity of it to a foreign country as might purchase the pay and provisions of an army, would be too great. . . .
>
> Mr. Hume frequently takes notice of the inability of the ancient kings of England to carry on, without interruption, any foreign war of long duration. *The English, in those days, had nothing wherewithal to purchase the pay and provisions of their armies in foreign countries*, but either the rude produce of the soil, of which no considerable part could be spared from home consumption, or a few manufactures of the coarsest kind, of which, as well as of the rude produce, the transportation was too expensive. . . .
>
> Among nations to whom commerce and manufactures are little known, the sovereign, upon extraordinary occasions, can seldom draw any considerable aid from his subjects, for reasons which shall be explained hereafter. It is in such countries, therefore, that he generally endeavours to accumulate a treasure, as the only resource against such emergencies.—"*The Wealth of Nations*," *Book IV, Chapter I (Cannan's Edition, Volume I, Pp. 411–12).*

Until the Franco-German War of 1870 an army was compelled to draw the whole of its supplies of food and forage mainly from the area in which it was encamped. The soldier who grasped that truth more clearly than any other since the days of the Romans was Napoleon. It was the basis of his strategy. When, therefore, payment had to be made to the people of the country in which an army was operating for food and forage, the only means of payment was the precious metals, gold and silver. Kings and governments were thus wholly unable to prosecute foreign wars until the last quarter of the nineteenth century unless they had ample quantities of the precious metals. A king, accordingly, made it one of the principal objects of his foreign trade policy to ensure the accumulation of the precious metals within his domains.

During the World War of 1914–18 the citizens of every belligerent country were compelled or cajoled into surrendering all the gold they possessed in the form of currency and much of the gold they possessed in the form of jewellery to their governments. The gold so accumulated was exported to neutral countries in payment of purchases of munitions, foodstuffs and raw materials. The Imperial Government of Germany had until 1914 retained as a special war chest a part of the gold received as an indemnity from France after the war of 1870–1. For many years before the World War of 1914–18 the suggestion had been made in Great Britain that a special reserve of gold should form one of the precautions against the emergency of a war.

Thus, kings and governments in the eighteenth century had a very direct interest in the enforcement of the commercial policy described as the Mercantile Theory of Trade. *It was always the government which watched the movement of the precious metals. The exporting merchants and manufacturers showed no interest in the import of the precious metals.* The governments and the exporting merchants and manufacturers were often at loggerheads over the movement of the precious metals. The exporting merchants and manufacturers often exported the precious metals, and, whenever exports of the precious metals occurred, the exporting merchants and the manufacturers were promptly called upon by the government to furnish an explanation. The manner in which the exporting merchants and manufacturers of the eighteenth century used to defend themselves when attacked by their governments for exporting the precious metals has been described by Adam Smith. He writes:

> The exclusive privileges of those East India companies, their great riches, the great favour and protection which these have procured them from their respective governments, have excited much envy against them. This envy has frequently represented their trade as altogether pernicious, on account of the great quantities of silver, which it every year exports from the countries from which it is carried on.
>
> The parties concerned have replied, that their trade, by this continual exportation of silver, might, indeed, tend to impoverish Europe in general, but not the particular country from which it was carried on; because, by the exportation of a part of the returns to other European countries, it annually brought home a much greater quantity of that metal than it carried out.—"*The Wealth of Nations*," *Book IV*, *Chapter I* (*Cannan's Edition*, *Volume I*, *P. 415*).

The exporting merchants and manufacturers were interested only in the sale of the largest possible quantities of goods, and as the freedom to trade was dependent upon the goodwill of their governments, it was necessary for the exporting merchants and manufacturers to purchase the goodwill of their governments by pretending that the purposes of the exporting merchants and manufacturers were the purposes of their governments.

Whether the foreign trade of the country showed an excess of exports or an excess of imports of goods was a matter of complete indifference to the exporting merchants and manufacturers, so long as "trade was "good." If some explanation of an excess of exports of goods was necessary, the Mercantile Theory of Trade was as satisfactory as any other that might have been devised. It had the very special recommendation of being particularly agreeable to kings and governments, and the merchants of the eighteenth century would have shown very little of the acumen that merchants are supposed to acquire from their occupation if they had failed to employ so useful an argument in their negotiation with kings and governments.

An excess of exports of goods over imports of goods in the foreign trade of a country was a result that the exporting merchants and manufacturers had no interest to avoid and kings and governments had every reason——other than the real interests of their peoples, which was peace——to welcome. The merchants were, accordingly, only too pleased to win the favour of their kings and governments by endorsing the commercial policy of their kings and governments.

Both kings and merchants were only flattering themselves when they believed that they were conscious architects of an excess of exports of goods and services over imports of goods and services which led to the import of the precious metals. Whenever there was an inflow of the precious metals, it was neither the enterprise of the merchants or of the manufacturers nor the policy of the kings that was directly responsible. The laws which were supposed to have been responsible for the import of the precious metals into a country in the eighteenth century are no longer in force in Great Britain and other countries today. Nevertheless, the foreign trade of Great Britain and several other countries annually shows an excess of exports over imports and large imports of the precious metals.

So long as the imports of goods and services into a country fall short of the exports of goods and services, an inflow of the precious metals——or some substitute for them——is inevitable. If the import of the precious metals is economically disastrous it is the factors that cause an excess of exports over imports of goods and services that must be discovered and eliminated.

Before the World War of 1914–18 the foremost trading countries were in Europe, and it was in Europe that the major part of the world's stock of the precious metals for currency purposes was to be found. At the outbreak of the World War in 1914 each of the leading trading countries possessed a stock of the precious metals such as kings and merchants in the eighteenth century could not have dreamed of. Were the spirit of Adam Smith to visit the vaults of the Treasury of the United States of America today it would no doubt be persuaded that, despite *The Wealth of Nations*, the peoples of the world still believe in the Mercantile Theory of Trade and that governments today regulate the commerce of their countries exactly as governments did in the eighteenth century.

It is a hundred and fifty years now since the first publication of *The Wealth of Nations*, and the Mercantile Theory of Trade has been abjured by politicians, economists, financiers, bankers, merchants and manufacturers. Nevertheless, the demand for the precious metals is as intense as it ever was, and there is no subject on which greater interest is centred by those engaged in finance than the annual production of gold. Economists and financiers are equally agreed that the accumulation of a large quantity of gold in a country is essential to its economic welfare.

The accumulation of gold in the United States of America is due to the large excess of exports over imports of goods in the foreign trade of that country since the outbreak of the World War in 1914. No one has accused the Government of the United States of America of having done anything approaching what kings and governments of the eighteenth century are supposed to have done.

Europe, in fact, forced gold upon the United States of America. There was a time when the stream of gold from Europe to the United States of America became a source of embarrassment to the United States of America. It was almost too much of a good thing, and nothing could be farther from the truth than that the people of the United States of America have of set purpose imported gold into their country during the past fourteen years.

A small part of the gold that the United States of America has received since 1914 has been re-exported, because the United States of America is quite unable to make any use of so much gold. Another part——a considerable part——has been buried and, in the language of finance, "immobilised." The gold has literally been returned to the earth from which it sprang.

India is a country into which there have been very large imports of the precious metals. That country has been branded as "a sink of the precious metals," for which the people are supposed to have "an insatiable "thirst." Even Professor Maynard Keynes who prides himself on his unorthodoxy in monetary science hugs the hoary fiction. He writes:

> India, as we all know, already wastes far too high a proportion of her resources in the needless accumulation of the precious metals.
>
> The Government ought not to encourage in the slightest degree *this ingrained fondness for handling hard gold.* By the elimination of both precious metals, to the utmost extent that public opinion will permit, from amongst the hoards and the circulation of the country, they ought to contract *an uncivilized and wasteful habit. . . .*
>
> Every one knows Jevons's description of India as the sink of the precious metals.—"*Indian Currency and Finance*," *Pp.* 99–100.

Professor R. A. Lehfeldt, who was a lecturer in Economics in a university in South Africa, the leading gold-producing country of the world, stated the same fallacies with a great wealth of imaginative detail. He wrote:

> India regularly imports more gold than it exports, the excess varying according to the prosperity of the country; there have been one or two exceptional years when there has been a net outflow, *because crop failure has put the country temporarily in a difficulty about meeting its engagements*, but this has only happened twice in the last thirty or forty years.
>
> The Indian people are in fact the best customers of the gold mines; *they devote an appreciable part of their small earnings to buying gold and silver, which though made up into jewellery, is regarded as part of the available resources of a family, to fall back*

on in time of need. Hence it is that something occasionally comes back out of the hoard, as in the two years mentioned; but ordinarily the gold taken by India must be regarded as having passed outside the range of commerce.

The amount of gold taken in this way is important, for though Indian incomes are small, the country is prodigiously populous. There are more than twice as many inhabitants as in Britain, France, and Germany put together, and, *as their tastes run to buying gold*, it is not surprising that the demand is large.

As far back as the middle of the last century India sometimes bought £m 5 of gold per year, and with the increasing prosperity of late the net imports rose to a maximum of £m 25 in 1911.—"*Restoration of the World's Currencies*," *Pp. 134–35 (1923).*

Professor Lehfeldt's picture of the Indian peasant as a hoarder of gold and silver is a magnificent achievement of the imagination. No man with a first-hand knowledge of the condition of the masses of the people could entertain a belief so removed from the facts as that implied by the words:

They [the Indian people] devote *an appreciable part of their small earnings* to buying gold and silver, which though made up into jewellery, is regarded as part of the available resources of a family, to fall back on in time of need. . . . Their tastes run to buying gold.

Gold jewellery forms the property only of the wealthy class, and the number of people in India above a state of severe poverty is incredibly small. The ornaments of the masses of the people are of silver, but there is nothing in the quantity possessed by each family that is in any way unusual. A woman wears the same few ornaments she possesses all her life. Only a very small percentage of the population possesses additional ornaments for special occasions. The ornaments are not regarded "as part of the available resources of a family "to fall back on in time of need." Most of the ornaments that a woman possesses are associated with religious superstitions. To the Indian the sale of his wife's jewellery is the last humiliation to be endured. There is a spirit of chivalry in the East that is not at all understood in the West. When Professor Lehfeldt wrote of the Indian people as possessing " tastes " that " run to " buying gold " he disclosed abysmal ignorance of the facts of the life of the masses of the people of India.

The people of India have no greater love of the precious metals and no more " ingrained fondness for " handling hard gold " than the people of the United States of America or of any other part of the world. They have no abnormal love of ornaments. The overwhelming majority of the people are in a state of poverty that can never be realized by those who have not seen it. The wealthy classes have not that love of magnificence or the highly developed artistic tastes of the wealthy classes of Europe, and there is, accordingly, not in that country the demand that there has been in Europe for gold plate and ornaments of various kinds.

The most decisive proof that the Indian people have no " ingrained fondness for handling hard gold " is afforded by the fact——ingenuously recorded by Professor Maynard Keynes in *Indian Currency and Finance*——that determined efforts repeatedly made by the Government of India to put gold coins into circulation have failed. The people who are supposed to possess " an ingrained " fondness for handling hard gold " could not be induced to come to the government offices and convert paper money into gold——" hard gold " !

It has not been recorded in the years in which the imports of the precious metals into India have been small that thefts of gold and silver had increased, that women were afraid to wear their jewellery in public or that there was any form of popular discontent. Even the political situation has remained unaffected. A shortage of any other commodity——wheat, rice, cloth or kerosene oil——or even an attempt at a " corner " immediately sets up the violent reactions to be expected among a temperamental, if long-suffering, people, and the commonest reaction is the looting of the bazaars.

Between 1918 and 1920 gold and silver were poured into India. No one in India wanted either of the precious metals, but payment in some form had to be made to India for the foodstuffs and raw materials that had been taken from the peasants and exported to Europe by the merchants. Because it was impossible to send manufactures from Europe or because the Indian peasant had as much of foreign manufactures as he fancied he needed, nothing could be sent to India in payment of the exports of foodstuffs and raw materials from India but gold and silver.

India has no interest in exporting foodstuffs and raw materials in excess of what is required to pay for its imports and to meet all its obligations in foreign countries. If foreign countries, however, insist on India supplying them with additional quantities of foodstuffs and raw materials, it stands to reason that India should receive some kind of compensation. There is not an economist nor a financier in the world who would deny that, if India refuses to take Lancashire textiles or German hardware, the only form that compensation can take is the precious metals.

Very little gold is mined in India. There are no silver mines. Not an ounce of the gold and silver that now annually enters India would be brought within a hundred miles of its ports if the amount of the exports of goods from India does not annually greatly exceed the amount of the imports of goods and services into India and the interest and other obligations of India in Great Britain.

India's "thirst" for the precious metals is one of the fictions of modern finance and monetary science. For decades governors of central banks, managers of private banks, financiers and economists have been racking their brains as to how the three hundred millions of India's illiterate peasants could be weaned from the "ingrained fondness for handling hard gold," when, as a matter of fact, the gold has, year after year, been forced upon India by the excess of exports over imports in the foreign trade of India. It is notorious that the prices paid in India by the merchants to the peasants for their crops is only a fraction of the prices received by the merchants, and an enormous part of the payments made to India for exports of foodstuffs and raw materials thus never reaches the peasants at all. The Indian peasant who produces foodstuffs and raw materials for export is maintained at the subsistence level—at an appallingly low subsistence level.

If an " ingrained fondness for handling hard gold " is the explanation of the imports of gold into India, an " ingrained fondness for handling hard gold " is not the explanation of the imports of gold into the United States of America. Even Professor Maynard Keynes admits that. He writes:

> The West, as well as the East, has learnt to hoard gold; but the motives of the United States are not those of India.—" *A Tract on Monetary Reform*," *P. 167*.

From the earliest days of trade between Europe and Asia there has been a flow of the precious metals from Europe to Asia, and it is that circumstance that has given the East its reputation as an absorber of gold and silver. The most elementary examination of the facts of the history of the trade between the East and the West, however, provides the explanation of that phenomenon.

Before the opening of trade between the peoples of Europe and the peoples of Asia, the peoples of Asia had made more progress in the production of manufactures than the peoples of Europe. It was to obtain the incomparable silks and muslins of India that European navigators rounded the Cape of Good Hope. For the beautiful fabrics and wares of the Orient, Europe had nothing to offer in exchange. Consequently, the silks and the muslins, the carpets and the damasks, the trinkets and the spices had to be paid for in gold and in silver. The discovery of America, which was almost coeval with the discovery of the sea route to India, alone made trade between Europe and Asia on a large scale at all possible. The gold and silver plundered in Mexico, Peru and Brazil paid for the textiles of India and the spices of Ceylon and of the Malay Archipelago.

When the supply of the precious metals from America declined, the European traders in the East had no alternative but to pass from trade to plunder. That is the explanation of the spoliation of the princes, nobles and people of India during the rule of the East India Company. The East India Company was formed to bring the foodstuffs, raw materials and manufactures of India to Europe, but the peoples of Europe in those days produced nothing that was exportable to the East. Therefore, the East India Company and its officers had no alternative but plunder. They were the helpless and unwilling instruments of economic forces that they did not understand.

It was the invention of the steam engine, not the eloquence of Burke, Fox and Sheridan nor the statesmanship of the many ministries during the long reign of Queen Victoria, that brought that regrettable chapter in the history of British rule in India to a close. The production of textiles and other goods by steam-driven machinery in Great Britain proved fatal to the hand-industries of India. Machine-made goods were equal in quality and less in price than the finest hand-made products of India. The fabrics and wares of India were no longer able to hold their own either in the markets of Europe or in the bazaars at home, and the arts and the crafts of India rapidly declined and eventually disappeared. The importation into India of British manufactures provided the means of payment for the exports of Indian produce. India passed from an exporter of manufactures to an exporter of foodstuffs and raw materials or, in the rhetoric of Indian politicians and economists, to the position of " a hewer of wood and " a drawer of water." Respect for the property of the people of India became a practicable political policy only because plunder had ceased to be a painful commercial necessity.

With the extension of the railway system in India the export of foodstuffs and raw materials to Europe rapidly expanded, and before the commencement of the last quarter of the nineteenth century there was a steady recurrence year after year of large excesses of exports over imports. British manufacturers were pushing their goods into India with the utmost energy, and the construction of railways and public works of various kinds and the maintenance of an army of nearly three hundred thousand men magnificently equipped with European weapons created an enormous demand for goods from Great Britain. Nevertheless, the value of the imports into India was less by a great deal than the value of the exports of foodstuffs and raw materials from India to Europe. If Europe would have all the Indian produce that Europe could absorb, the only means of payment for the amount that was in excess of India's purchases of European manufactures was the precious metals. Thus, India was again forced to accept gold and silver in large quantities year after year, and the whole of the vast amount of the precious metals buried in India are not in tiny hoards in its sixty million homes but are concentrated in the hands of a small class of wealthy individuals.

It is the precious metals that maintain the inequality in the distribution of wealth in India even as the precious metals enabled King Tutankhamen of Egypt to accumulate within his palace a prodigious part of the fruits of the toil of his subjects. The largest hoards of the precious metals in India are held by the ruling princes, the princes and chiefs who have lost their thrones, the large class of zemindars and other landowners and the merchants and industrialists. It is the capitalist class in India whose "tastes run to buying gold." The masses of the people are too poor to indulge that taste, even if they possess that taste. The ruling princes of India hold enormous amounts of the precious metals and jewels. His Highness the Maharajah of Patiala, a ruling prince whose territories are incomparably smaller than those of his Exalted Highness the Nizam of Hyderabad and whose wealth is incomparably less than that of his Highness the Gaekwar of Baroda, carried with him during his tour in Europe in 1928 no less than £2,000,000 worth of jewellery—to the intense amazement of the customs authorities of the countries he visited.

India is an unwilling exporter of raw produce. The food production of the country is inadequate for the proper feeding of its people, and, until the methods of agriculture are improved, the expansion of the exports of foodstuffs and raw materials is against the vital interests of its inhabitants. India is drained of production that India can not afford to export. Often the Viceroy has no alternative but to yield to public clamour and by the exercise of his special powers to forbid the export of wheat. In recent years, there has been a marked tendency for the peasants to abandon food crops for products suitable for export—" money " crops " as they are called in the expressive terminology of the country.

The high prices that Indian produce fetch in the markets of Europe are an irresistible temptation to the merchants in India, who sacrifice the vital interests of the masses of the people to the accumulation of vast fortunes, for which they are unable to find any use. Owing to the extreme simplicity of the mode of living, the merchants in India are generally unable to make use of more than a small fraction of the incomes they derive from the fortunes they accumulate. As a result, gambling and every form of speculation have, during the past quarter of a century, developed to an enormous extent. The totalizator is a " prosperity " index in India, and every " boom " brings a whole crop of attempts at " corners " in all the markets.

The merchants in India today have no more interest in increasing the quantities of the precious metals in India today than the merchants in England in the eighteenth century had in increasing the quantities of the precious metals in England in the eighteenth century. When the world price of silver rose so high in 1918 that the silver content of a rupee was worth a great deal more than 1s. 4d. gold, the Government of India found it utterly impossible to prevent the Indian people from smuggling silver rupees out of the country. It is true that silver rupees were hoarded in India in 1918, but the reason was that the people could not be persuaded to part with silver rupees at their face value when the bullion value of silver rupees was very much greater. The Indians are an intelligent people.

The United States of America and India are not the only countries upon which the precious metals have been forced. Several countries that were neutral during the World War of 1914–18 have had precisely the same experience. The demand for the products of those countries greatly exceeded their imports of goods, and the excess was, therefore, paid for in gold. During the World War a continuous stream of gold flowed into the neutral countries, Holland, Sweden, Norway and Denmark from both the Allied Powers and the Central Powers. It attained the dimensions of a nuisance. The neutral countries in Europe were, therefore, left with no alternative but *to take measures to prevent the entry of gold*. Sweden was the first country to embark on that policy. Professor Gustav Cassel observes:

> This gold-exclusion policy is one of the most remarkable phenomena in the history of money after *1914*.—"*Money and Foreign Exchange after 1914*," *P. 79*.

The effort to stop the entry of gold into Sweden and the other neutral countries in Europe that made the experiment, on the whole, proved a failure. The gold was being pumped into Norway, Sweden, Denmark and Holland by a force stronger than anything that the governing or the banking authorities of those countries could bring to bear against it. That force was not mercantilist tendencies in merchants in Holland, Sweden, Norway or Denmark but the balance of trade of each of those countries.

Mercantilism is a myth. It was only an excuse for the favourable balance of trade that no one in the seventeenth or eighteenth century could, otherwise, explain.

The favourable balance of trade has, as already shown, persisted even after the publication of *The Wealth of Nations*, and the Myth of the Export of Capital has replaced the Myth of Mercantilism as an excuse for a favourable balance of trade.

CHAPTER XXIV

PRODUCTION UNDER THE CAPITALIST SYSTEM

How the Consumption of Goods by the Masses of The People is Repressed

THE capacity of the masses of the people in a country to obtain adequate food, clothes, housing, warmth and all the other necessaries and the comforts of life is entirely regulated by two factors——wages and prices.

Wages are of value to the worker only in proportion to the amount of food and other necessaries of life that he is able to buy with his wages. The amount of food and other necessaries of life that a worker is able to buy with his wages depends upon the prices of foods and of other necessaries of life. The wages of labour are, therefore, calculated for the purposes of economic investigation in terms of the quantities of food and other necessaries of life that the worker obtains for his money wages. The quantities of food and other necessaries of life that the worker obtains for his money wages are his real wages.

If the money wage remains steady and prices fall, the real wage is increased. If prices remain steady and the money wage rises, the real wage is increased. The real wage is also increased if there is an upward movement of the money wage and a downward movement of prices. It is only by a rise in the real wage that the masses of the people in the industrial countries of Europe can be given an increased capacity to acquire " goods of rapid " consumption " or any kind of goods.

When wages rise or prices fall, an increased demand is created for the goods used or consumed by the masses of the people——food, clothes, shoes, houses, furniture and the other necessaries of life. The production of the necessaries of life or of goods for which the other necessaries of life might be exchanged must, therefore, be stimulated. That is admitted by the economists, the financiers, the industrialists—by all supporters of the capitalist system.

But precisely because, by an increase in real wages, the masses of the people would obtain more of the necessaries of life, the economy of the capitalist state is deliberately regulated towards causing money wages to remain steady or fall and prices to remain steady or rise. In other words, the purpose of the capitalist system is to allow the masses of the people the smallest possible quantities of the necessaries of life—food, clothes, shoes, housing—and none of the comforts of life.

The fall in prices in every country since 1920 has tended to increase the real wage of the wage-earner, that is, his capacity to buy food, clothes, shoes and the other necessaries of life. Because the fall in prices has increased the capacity of the wage-earner to provide himself with the necessaries of life, money wages have been systematically reduced at each fall in the price level in all those industries in Great Britain in which the workers were unable to resist their employers.

The advantage that the wage-earners and the lower salaried class have gained by the heavy fall in prices since 1920 has, therefore, been negatived, and the working classes and the lower salaried class—except in certain industries and occupations—have been forced back to the standard of living in 1920.

Since the price level has continued to decline in Great Britain (as in other parts of the world), the arrest of the fall of the price level or further reductions in money wages is now the main objective of the industrialists, the bankers, the economists and the politicians—both Conservative and Liberal—who control the lives of the masses of the people of Great Britain. Sir Josiah Stamp, addressing the Birmingham Chamber of Commerce on October 6, 1927, said:

If it (the price level) is continually increasing the real wage, you have got only two courses. One is to take your courage in both hands and preach a reduction of the money or nominal wage and the other is to stop the price level falling.

Either of the two courses recommended by Sir Josiah Stamp to the capitalists who control the lives of the masses of the people of Great Britain could have no other result than to limit the acquisition and consumption of the necessaries of life by the wage-earning or lower salaried class in Great Britain, that is to say, to limit the wage-earning or lower salaried class to the same quantities of food, clothes, shoes and other goods that they now use or consume or to the same standard of living as they now have. Sir Josiah Stamp would frankly admit that.

There is something sacred about wages—they represent homes and families and domestic destinies. People ought to tread very carefully when approaching wages. On the cost sheet, wages are mere figures; out in the world, wages are bread boxes and coal bins, babies' cradles and children's education—family comforts and contentment.—*Henry Ford*, "*My Life and Work*," *P. 163.*

How considerable a part of the total population of Great Britain the wage-earning class constitutes is shown by the fact that, in 1924, out of the 18,500,000 persons who received money incomes no less than 15,400,000 were wage-earners. That the wage-earners constitute the largest consumers of the production of the country was brought out in an address that Mr. Seebohm Rowntree, so well known for his efforts to promote the welfare of the working classes under the capitalist system, delivered at the Liberal Summer School in 1927.

He pointed out that seventy per cent. of the things made in Great Britain are sold in Great Britain, and eighty per cent. of the people who buy them belong to the wage-earning and lower salaried class.

The wages paid by one employer constituted the market of his neighbour, and therefore there was no prosperity at the end of the road of lowered wages.

He appealed in an earnest and personal fashion to his hearers to go back to their workshops and put this principle in practice.—"*The Manchester Guardian*," *August 4, 1927.*

It is only by giving the wage-earning class in Great Britain the means of obtaining larger quantities of food, clothes, shoes and the other necessaries of life and some of the comforts of life that the condition of the wage-earning class in Great Britain can be improved. That can be secured only by raising wages, as Mr. Rowntree has argued, or by lowering prices. Under the capitalist state, however, a diametrically opposite policy is followed.

In an article in " The Industrial Relations Number " of *The Manchester Guardian* of November 30, 1927, Sir Josiah Stamp wrote of the fall in the price level:

> There is no case in history of a trade boom or a decent revival being sustained upon a fall of this magnitude.

Adding that that " impossible feat " had been accomplished only in the United States of America and that that was due to very special advantages and causes, Sir Josiah Stamp argued that an economic miracle had been performed in Great Britain, because, despite a falling price level in Great Britain, production had been, on the whole, well maintained in Great Britain. He wrote:

> But, although in this country [Great Britain] we have lacked all these advantages, we have succeeded remarkably in employing steadily larger numbers during the past three years, at a continually increasing real wage, *and we have done this on a falling price level.*

Sir Josiah Stamp next deplored the fact that there was no hope of " any general mobility of wages by con- " trolling them according to their purchasing power." What is the meaning of those words? The meaning of those words——the meaning that Sir Josiah Stamp would himself give to those words——is that he regretted that there was no way of always limiting the working classes to the same quantities of food, clothes, shoes and the other necessaries of life, so long as the price level was falling and the money wage level remained steady. Thus, the whole purpose of the economic speculations of Sir Josiah Stamp is to devise ways and means by which the working classes would be prevented from obtaining more food, more clothes, more shoes, better housing or more of any of the necessaries of life.

Sir Josiah Stamp wrote that almost in the same terms in the article, for he offered the following counsel to his fellow-supporters of the capitalist system:

> It becomes *imperative*, therefore, that the only available alternative against *a complete derangement of the proportions in which the product of industry is being divided* shall be operative.
>
> That alternative is that gold should cease to appreciate, *that prices should cease to fall.*
>
> *I pray, therefore, for the sake of trade revival,* and for industrial relations, *that there may be a check to the price fall.*

Most emphatically, " a complete derangement of the " proportions in which the product of industry is being " divided " is the first condition of the rescue of the wage-earning and lower salaried class from their present state of appalling poverty. There can be no hope whatever of uplifting the masses of the people of Great Britain from their present state of appalling poverty (the existence of which is admitted even by the capitalists and the economists) without " a complete derangement " of the proportions in which the product of industry is " being divided."

If Sir Josiah Stamp has set his teeth against " a com- " plete derangement of the proportions in which the " product of industry is being divided," he is setting his teeth against the removal of poverty among the masses of the people of Great Britain. What he is against is precisely what he must be for——if he has the slightest desire to improve the condition of the wage-earning and lower salaried class. Sir Josiah Stamp is no idle theorist. He is one of the most powerful men in Great Britain today. He is a Director of the Bank of England, which, working in secrecy and freedom from all outside control, exercises a mighty influence upon the movements of the price level in Great Britain.

What does Sir Josiah Stamp's argument imply? It implies, as Sir Josiah Stamp would himself admit, that, however much " trade might revive," however much production might be increased, however much the output of the worker might be increased by his own skill and determination, by science, by organization—even by rationalization—the masses of the working classes in Great Britain and in every other industrial country must, under the capitalist system, be content to continue to live exactly as they are living today.

If the wage level and the price level both continue to be stable, the working classes will be forced to be content with their present condition—not an ounce more of bread, not an ounce more of milk, no better clothes, no better shoes, no better housing, no more warmth in winter, in short, no more of the bare necessaries of life and none of the comforts of life. That is the fate to which the capitalist system condemns mankind. There is no other meaning in Sir Josiah Stamp's words.

Examination of the gold standard system of currency does not come within the scope of this work. There are some facts about the re-establishment of the gold standard in Great Britain in April, 1925, which are outside the field of controversy. One such fact is that the re-establishment of the gold standard in Great Britain at what is called the pre-war parity increased the real wages of the working classes. In other words, the re-establishment of the gold standard in Great Britain, by which the pound sterling was given in April, 1925, the value in terms of gold it possessed before the World War of 1914–18, that is, the equivalent of 123 grains of refined gold, increased the power of the wage-earners to buy food, clothes and other goods.

Because the re-establishment of the gold standard at the pre-war parity increased the real wage—and for no other reason—Professor Maynard Keynes made a violent attack on the re-establishment of the gold standard in Great Britain in April, 1925, in a pamphlet, *The Economic Consequences of Mr. Churchill.* Professor Keynes explained in that pamphlet that the re-establishment of the gold standard in Great Britain had raised the buying-power of the money wage of the working classes of Great Britain by ten per cent. As an increased real wage was irreconcilable with production under the capitalist system, Professor Keynes predicted that the re-establishment of the gold standard in Great Britain at the pre-war parity would force the lowering of the money wage. That, he pointed out, would lead to strikes. He wrote:

> It is a policy from which any humane or judicious person must shrink. . . .
>
> The policy of deliberately intensifying unemployment *with a view to forcing wage reductions* is already partly in force, *and the tragedy of our situation lies in the fact that*, from the misguided standpoint which has been officially adopted, *this course is theoretically justifiable.*
>
> No section of labour will readily accept lower wages merely in response to sentimental speeches, however genuine, by Mr. Baldwin.
>
> We are depending for the reduction of wages on the pressure of unemployment and of strikes and lock-outs; and in order to make sure of this result we are deliberately intensifying the unemployment.—"*The Economic Consequences of Mr. Churchill*," *Pp. 17–18.*

Events proved that Professor Maynard Keynes' analysis of the conditions of production in a capitalist state was absolutely right, for, after a series of wage reductions in Great Britain, following upon the re-establishment of the gold standard in April, 1925, there came the mighty coal strike and the revolutionary general strike in 1926, as a result of the coal-owners' demand for the reduction of wages in the coal industry.

In 1925 in Great Britain the Conservative Government prided itself on the fact that the re-establishment of the gold standard had raised real wages. The raising of real wages is, however, incompatible with the economy of a capitalist state. The re-establishment of the gold standard at the pre-war parity in Great Britain, therefore, forced an all-round reduction of money wages in the industries of Great Britain.

The attempt to reduce money wages in Great Britain in the coal industry in 1926, following upon the restoration of the gold standard in April, 1925, brought the working classes of Great Britain face to face with the fact that they had but dimly understood before that the economy of a capitalist state is opposed to the raising of the real wage.

The coal strike and the general strike were intense human reactions of the working classes of Great Britain to the discovery of the inhumanity of the capitalist system. Indisputably, the coal strike and the general strike were "Economic Consequences of Mr. Churchill," and the coal strike and the general strike were forced upon the working classes by the action of the Conservative Government in re-establishing the gold standard at the pre-war parity.

To the raising of real wages Professor Maynard Keynes is as much opposed as Sir Josiah Stamp. As Chairman of the National Mutual Life Assurance Society he addressed the annual general meeting of the society that was held on January 30, 1929. Discussing the economic situation, of which he took a very gloomy view, he said:

> *Since it is impracticable and unwise to reduce wages, the only solution* is to be found in accelerating the increase of efficiency *and in so conducting our international monetary diplomacy as to avoid a further fall in the level of world prices.*—"*The Times*," *January 31, 1929.*

Neither Professor Maynard Keynes nor Sir Josiah Stamp dare deny that the improvement of the condition of the working classes can be effected—so long as the wage level remains steady—only by a fall in the price level. Nevertheless, to a fall in the price level or to a rise in wages Professor Keynes is as resolutely opposed as Sir Josiah Stamp. Professor Keynes' reason for arresting the fall in the price level is the following:

> Between 1914 and 1924 average real wages for the normal week (full employment) rose by more than 8 per cent.

Now, assuming that that reading of the statistics is correct, Professor Keynes would set the hands of the clock back, because in the capitalist state an improvement of the real wage by eight per cent. in ten years is a too rapid rate of improvement. An increase of the real wage by eight per cent. in ten years is an increase of the real wage by less than one per cent. per year. If, under the capitalist system, the condition of the wage-earning class can not be improved *even by less than one per cent. a year*, what hope can the wage-earning class have of improvement in their lot, under the capitalist system, during the next hundred years?

Will the Liberal Party, of which Professor Maynard Keynes is a dominant member and the chief economic adviser, tell the wage-earning voters at the General Election in 1929 that, under the capitalist system, the price level must be so controlled that the real wage will not be improved even by so little as less than one per cent. per year? Nor can the Liberal Party undertake to promise the masses of the people of Great Britain so slight an improvement as even less than one per cent. per year, under the capitalist system, for that has not been achieved even in the United States of America, the supposed paradise of the capitalist system. Messrs. Foster and Catchings of the Pollak Foundation for Economic Research write as follows of the United States of America:

> In the quarter century preceding the World War, a period of astounding advances in the science and art of production, the workers as a whole increased their real wages scarcely one half of one per cent. a year.—"*Business without a Buyer*," *P. 12.*

In the Economic Programme of the Liberal Party, *Britain's Industrial Future*—Professor Maynard Keynes was one of the members of the Executive Committee that formulated it—the Liberal Party makes no statement at all of what would be its price policy. That is a very remarkable omission. In contrast, there is a great deal about the wisdom and the humanity of the payment of high wages by employers. High wages are only one blade of the scissors with which the Gordian knot of poverty can be cut. For example, one reads in *Britain's Industrial Future*:

> It is a primary interest of the whole community, and not merely of the wage-earners themselves, that the general level of wages

should be as high as possible; and the chief reasons for desiring industrial progress is that higher wages should be made possible in order that the general standard of life may be raised. Industry is not an end in itself; it exists in order to provide livelihood for the whole community, and livelihood is expressed, for the vast majority, in terms of wages or salaries. . . .

The social justification for paying high wages is not merely that this will lead to better production, though it often does so; *high real wages are an end in themselves, because high wages mean general well-being. . . .*

Since the wage-earning classes form the great majority of the purchasing public in the home market, the higher the general level of their wages and the more they have to spend, the better is it for trade, and therefore for the employers. And the lower prices can be kept, while still returning a profit, the wider, again, will be the manufacturer's market, both at home and abroad.—*Pp. 181–82.*

When the Liberal Industrial Report, *Britain's Industrial Future*, states that "the general level of wages should "be as high as possible," it refers to the real wage. Every member of the Liberal Executive Committee, which prepared *Britain's Industrial Future*, is aware that the real wage depends upon both the price level and the money wage level. Therefore, the Liberal Executive Committee concedes in *Britain's Industrial Future* that the price level must be as low as possible. Professor Maynard Keynes, nevertheless, told the shareholders of the National Mutual Life Assurance Society that the present price level must be maintained, and the present wage level endured (because *the reduction of wages* was "impracticable and unwise") so that *the real wage might not be increased* for "another five or six years"—that is during the whole of the life of the Parliament to be elected in 1929.

The conflict between the analysis of Professor Maynard Keynes before the members of the National Mutual Life Assurance Society and the promises in *Britain's Industrial Future*, the Liberal Industrial Report (of which Professor Keynes was one of the authors) is patent to any one who compares the two documents.

In the Liberal Industrial Report, *Britain's Industrial Future*, it is stated (presumably for vote-catching purposes) that the increased power of the wage-earning class must stimulate production. Professor Keynes said the exact opposite in his speech before the National Mutual Life Assurance Society. He there argued that the improvement of eight per cent. in real wages during the ten years, 1914 to 1924, had, under the capitalist system, proved disastrous to production in Great Britain. He declared that the only hope of stimulating production, under the capitalist system, lay in preventing the working classes from increasing their real wages for "another "five or six years." Until the benefit the wage-earning class had already obtained had been negatived (during the next five or six years)——in Professor Keynes' opinion ——there could be no increase in production in Great Britain under the capitalist system.

Professor Maynard Keynes' speech at the general meeting of the National Mutual Life Assurance Association on January 30, 1928, was a complete, definite and unqualified repudiation of *Britain's Industrial Future*, the Liberal Industrial Report, of which he was, no doubt, one of the chief authors! Professor Keynes' argument in his speech before the meeting of the National Mutual Life Assurance Society was identical with the speech of Sir Josiah Stamp before the Birmingham Chamber of Commerce on October 6, 1927. Neither Professor Maynard Keynes nor Sir Josiah Stamp can deny that they have both declared that a rising real wage is irreconcilable with the expansion of production under the capitalist system. In other words, an expansion of production, under the capitalist system, in Great Britain, can bring no improvement at all to the whole of the wage-earning and small salaried class, that is, the overwhelming majority of the people of Great Britain.

CHAPTER XXV

THE ROBBERY OF THE WAGE-EARNERS

Essential to Expansion of Production under The Capitalist System

If, under the capitalist system, the masses of the people are held within an immovable money wage level and an immovable price level while production expands, the capitalist system would be sufficiently condemned. The expansion of production under the capitalist system is not, however, practicable even upon the basis of an immovable money wage level and an immovable price level. Nothing less than a fixed money wage level and a rising price level are necessary to the expansion of production under the capitalist system.

The fixed money wage level and the fixed price level, for which Sir Josiah Stamp pleaded in his article in " The Industrial Relations Number " of *The Manchester Guardian* and Professor Maynard Keynes argued in his address at the annual general meeting of the National Mutual Life Assurance Society on January 30, 1929, are the conditions required under the capitalist system merely to maintain the existing volume of production.

Production in the capitalist state, the economists frankly explain, can be expanded only if the price level is steadily forced up and the wage-earning classes thus subjected to a continuous squeezing between a fixed money wage level and a rising price level. When the price level has made life unbearable for the wage-earners, relief is afforded by raising the wage level. Immediately, however, the forcing up of the price level is resumed, and the wage-earners subjected to another process of squeezing between the new money wage level and the rising price level. When the limit of endurance of the wage-earners is again reached, the money wage level is again raised. The process is repeated time after time. That is the process by which production is expanded under the capitalist system.

Why a rising price level is necessary to the expansion of production under the capitalist system was explained in very clear language in a leading article in *The Times*, reviewing the trade returns for July, 1927. *The Times* wrote on August 13, 1927:

> When prices are rising there is always a lag between what is received by the manufacturer and the cost of production. Raw material appreciates in value during the period in which it is in store or in process of manufacture, wages rise in sympathy with the increased cost of living, *but always a little later than the movement on the market*, and it is the same with other fixed charges. Such conditions stimulate industrial production.

Having thus explained that a trade revival could spring only from a rise in prices, *The Times* attributed the "depression in trade" to the fall in prices. To resume the quotation:

> ——but when prices fall, the movement is reversed. The difficulties encountered by industrialists in recent years are thus easily understood, *for costs have fallen more slowly than prices*, and since this country has made greater progress towards stabilization than its rivals it has been temporarily at a disadvantage.

The largest of all "costs" that the producer has to bear is wages. When, therefore, the "costs" of the producer fall "more slowly than prices," money wages fall more slowly than prices, and the capacity of the wage-earning classes to buy food, clothes and other goods produced in the country (or exchanged for goods produced in other countries) is increased.

Such conditions, *The Times* explains, are disastrous to the expansion of production under the capitalist system. Now, if the object of production is to supply goods to the masses of the people (of whom the wage-earning classes form the majority)——and that should be the objective of any economic system——the greater buying of goods by the masses of the people must necessarily "stimulate "industrial production." It does not matter whether the goods produced go directly into consumption or are exported in exchange for the goods of other countries required for consumption.

Under the capitalist system, however, as explained by *The Times*, the exact reverse happens. The expansion of production under the capitalist system is coeval, according to *The Times*, with a rise in prices and a steady wage level, that is, with a situation in which the power of the masses of the people to buy goods is daily being reduced. If that is so——and it is so——*increased production under the capitalist system does not go to the wage-earners.* It is utterly impossible that increased production under the capitalist system should go to the wage-earners, that is, the masses of the people, if a steady wage level and a falling price level (which automatically gives the masses of the people increased power to provide themselves with goods) does not "stimulate industrial production."

Professor Pigou writes:

> The gains that rising general prices bring to business men are obtained by *the secret mulcting* of those persons who depend upon fixed money incomes.—"*Essays in Applied Economics*," *P. 39.*

The bankers, the businessmen and the industrialists, who control the economy of a state under the capitalist system, make no concealment of the fact that it is a rising price level that they seek, and until the World War of 1914–18 the price level was always rising. Professor Nicholson stated the truth with biting sarcasm.

> Your practical man is never afraid of a rise in prices. It is the fall that seems so dreadful.—"*Inflation*," *P. 30.*

An economic system that flourishes upon the "secret "mulcting" of the masses of mankind might be an institution for the benefit of a small class but can not be an economic system that is reconcilable with the perpetuation of the human species upon the face of the earth.

The economists know that, under the capitalist system, an expansion of production is coeval with a rise in the price level. The economists know equally well that a rising price level results in "the secret mulcting"——the wholesale robbery——of the wage-earning classes of their meagre supplies of food, clothes, shoes and the other bare necessaries of life. The economists, as a body, have, therefore, been too discreet to plead in cold print, in favour of a rising price level. They have, however, not concealed their willingness to tolerate *a reduction of the real wage* in order to maintain the functioning of the capitalist system. For example, Professor Maynard Keynes in *The Economic Consequences of Mr. Churchill*, the pamphlet in which he attacked the restoration of the gold standard at the pre-war parity in Great Britain in April, 1925, *solely because the restoration of the gold standard at the pre-war parity raised the real wage*, wrote:

> I see no reason why, with good management, real wages need be reduced *on the average.—P. 9.*

In theory the economists have shown a sufficient respect for the public intelligence not to go further than to advocate a steady or stable price level——that is to say, a price level that does not fall faster than wages. To a falling price level the economists are as opposed as the practical men. Mr. Henry Ford stands almost alone in the world as an advocate of a falling price level.

Professor Irving Fisher in the United States of America, Professor Maynard Keynes in Great Britain and Professor Gustav Cassel on the continent of Europe are the principal advocates of a stable price level. The pretence of those economists that they stand in favour of a fixed or stable price level is, however, the most provoking hypocrisy. Professors Fisher, Keynes and Cassel and every other economist are supporters of the export of capital, and every economist knows——or ought to know——perfectly well that the export of capital from any country, whether it be the United States of America, Great Britain or Sweden, is impossible without a progressive rise in the price level against a fixed wage level.

It is now possible more fully to explain Professor Maynard Keynes' reference to unemployment, already quoted in this work, namely:

> To pay for unemployment by changing over from being a lending country to being a borrowing country is admittedly a disastrous course.—"*The Economic Consequences of Mr. Churchill*," *P. 16.*

That, as already shown is nonsense, unmitigated nonsense. Nevertheless, in Great Britain, France, Germany and Belgium before the World War of 1914–1918 and in the United States of America since 1914, employment has, in fact, been "paid for" on a large scale by lending goods to other countries.

To unravel the paradox, to explain how the nonsense has been perpetrated, is perfectly easy. On the one hand, the production of goods for export on credit does not increase the quantities of food and other necessaries of life available to the working classes. On the other hand, the production of the goods gives rise to employment, that is to say, a certain number of workpeople (who have been subsisting on a meagre unemployment allowance) are given money wages. The newly employed workmen are enabled with their money wages to enter into competition with the workers already employed for the supplies of food and the other necessaries of life available in the country. *Thus, there is increased competition for the same quantities of food and the other necessaries of life among the working classes*, and that increased competition forces up the price level. *Neither Professor Fisher, nor Professor Keynes nor Professor Cassel nor any other economist nor any financier dare challenge or seek in any way to qualify the facts, as stated in this paragraph.*

So long, therefore, as Professor Keynes advocates that Great Britain should "pay for unemployment by being a "lending nation," he can not pretend to desire stability of prices, despite all he has written in favour of stability of prices in *A Tract on Monetary Reform*. Stability of prices is irreconcilable with the export of goods on credit, because the larger the exports of goods on credit and the more the employment provided, the higher must the price level rise. In a straightforward discussion on the effects of the export of goods on credit from Great Britain Professor Keynes will be unable to deny that the export of goods on credit must necessarily and inevitably cause a rise in the level of prices, whatever might be the policy of the Bank of England.

There is no writer on monetary science in Great Britain who ranks higher in authority than Mr. R. G. Hawtrey. He says:

> When a country is a regular exporter of capital its exports and imports of commodities must be so adjusted as to provide a continuous export surplus equal to the net capital exported.
>
> *Price levels and foreign exchanges must be in equilibrium under those conditions.*—"*The Economic Problem*," *P. 279.*

It is an article of faith of the economists that, under the capitalist system, prices are regulated entirely by the action of the central bank—in Great Britain, the Bank of England. It does not matter, however, whether it is the capitalist system as a whole or some institution of the capitalist system that causes the rise of the price level. Upon the basis of the faith that the central bank alone controls the price level, Professor Irving Fisher and Professor Maynard Keynes—two of the leading monetary experts in the world—have each evolved a scheme for the maintenance of a fixed price level by means of monetary measures.

It is unnecessary to discuss the merits of the two schemes. It is sufficient for the purpose of this work to explain—as Professor Keynes would himself explain—the object of the scheme of Professor Keynes. Professor Keynes admits that under the capitalist system, with its inevitable corollary, the export of goods on credit, one can not have both a stable price level and a stable rate of exchange. Therefore, Professor Keynes advocates that a stable price level be maintained by the sacrifice of a stable rate of exchange. That also is the object of the scheme of Professor Irving Fisher.

The only object of the variations of the rate of exchange that Professor Keynes proposes to establish is the control of the imports and the exports. There is no other object. So long as the export of goods on credit is the policy of the capitalist state, the rates of exchange will be so varied as to reduce imports and increase exports. Professor Keynes himself says that. Therefore, under the capitalist system, whether it is the present monetary policy of the Bank of England or a monetary policy devised by Professor Keynes that is enforced, the result will be that imports will be discouraged and exports will be encouraged in order to produce a surplus of exports—that is exports of goods on credit.

If goods produced in Great Britain are exported on credit to other countries, as already shown, the price level must be forced up, because an increased number of wage-earners will have the power to compete for unincreased quantities of food and other necessaries of life—whatever might be the monetary policy of the Bank of England. Even Professor Keynes dare not deny that. Therefore, whether Great Britain adheres to its present monetary policy or adopts a monetary policy devised by Professor Keynes, the continuance of the export of goods and services on credit must necessarily and inevitably force up the price level.

Professor Keynes' hope of establishing a stable price level in Great Britain by means of a variable rate of exchange, is, therefore, utterly impracticable, so long as Great Britain persists in exporting goods on credit. Professor Irving Fisher's scheme for a variable gold dollar in the United States of America must fail for the same reason, so long as the United States of America continues its present policy of exporting goods on credit to other countries.

As explained in previous chapters, the export of capital depends, firstly, upon the willingness of foreign countries to take goods on credit, and secondly, upon the existence in the lending country of a quantity of raw materials and a quantity of labour that could be applied to the production of goods for export on credit. Since 1920 the countries of the colonial world that used to borrow goods and services from Great Britain have reduced their borrowings from Great Britain——one reason being that they have found that motor wagons are more useful than railway wagons——and thus the export of goods and services on credit from Great Britain has declined, even against the will of the capitalist class in Great Britain.

The decline in the exports of goods and services on credit from Great Britain to other countries since 1920 has necessarily forced down the price level. Not all the efforts of the Bank of England have availed in the least to stay the fall in the price level since 1920. The price level in Great Britain will rise only if foreign countries increase the quantities of goods and services that they now take on credit from Great Britain.

By taking large quantities of goods and services on credit from Great Britain, under the capitalist system, foreign countries will increase the amount of employment in Great Britain, but as the quantities of food and other necessaries of life produced or imported into the country will remain the same, the demand for food and the necessaries of life will be increased (by the wages paid to the unemployed) and, therefore, the price level will be forced up.

That, as shown in a previous chapter, is exactly the analysis of rising prices that Sir Josiah Stamp made in his address to the Birmingham Chamber of Commerce on October 6, 1927. It is convenient to quote his words again:

> I want at this point, in view of those figures, to draw your attention to a connection, an almost sinister connection in a way, between the movement of real wages and the movement of unemployment.
>
> If they traced back wage rates and price level from time to time since the war, at monthly or quarterly intervals, they would find that, after every fall in price, other things being equal, *the real wage went up; at the same time unemployment went up.* The two things were closely connected or correlated.—*The Birmingham Chamber of Commerce Journal, P. 863.*

Sir Josiah Stamp, it will be noticed, says, "*After* "every fall in price, unemployment went up." The fall in price can be caused only by a decline in exports of goods on credit, and a decline in exports of goods on credit must cause an increase of unemployment——employment arising out of production of goods for export on credit.

The most conspicuous economic phenomenon of the World War of 1914–18 was the marked rise in prices in the belligerent countries and in the neutral countries. The neutral countries were engaged in supplying the belligerents with foodstuffs, raw materials, munitions and other manufactured goods on credit. The export of goods on credit from the neutral countries during the World War forced up the price level in the neutral countries exactly as the export of goods on credit from a country during times of peace forces up the price level in that country.

The rise in prices in the belligerent countries has been explained in a variety of ways. It has occurred to no one that the supplies that were produced and despatched to the fighting fronts were exactly like goods exported on credit——the supplies produced and despatched to the fighting fronts led to no increase in the quantities of goods consumed by the wage-earning classes. Consequently, the harder the working classes toiled, the more shells they produced for the army, the more money wages they earned, the greater was the competition among the working classes for the quantities of food and other necessaries of life the working classes consume and the faster rose the price level.

There can be no peace in industry under the capitalist system——never. As proved in this work, it is the declared policy of all the controlling powers in a country under the capitalist system steadily to force up the price level, and it has also been proved in this chapter that the export of goods on credit must necessarily produce a rise in the price level. Therefore, under the capitalist system, the workers are subjected to consistent and secret robbery of their earnings, relief being granted, at intervals, by increases of money wages.

Now, a rise in wages, experience has proved, is obtained only by strikes. Mr. R. G. Hawtrey writes:

> Why then do workmen ever actually resort to a strike? One reason is that the threat of a strike could never be effective unless it were sometimes carried out.
>
> Employers only know by trying how far they can press their workmen without provoking a strike. Workmen only know by trying what concessions the employers would make to escape the loss involved in a strike, and what concessions they would regard as vital.—"*The Economic Problem*," *P. 331.*

Strikes nowadays are chiefly for the purpose of securing an increase or averting a decrease in wages. All other subjects of dispute between employers and workers can be either anticipated by legislation or settled amicably by negotiation and arbitration. Disputes over wages, on the contrary, involve intricate questions of prices, and the exact degree to which the price level has risen can not be mathematically decided even by the most conscientious statisticians.

It is not, however, the shortcomings of statisticians nor the perversity of either employers or workers that renders peace in industry under the capitalist system impossible. The export of capital, as proved in this work, must necessarily cause a forcing up of the price level and the robbery of the wage-earning class by a reduction of real wages. Every increase in the export of goods on credit must cause a further reduction of the real wage. Therefore, while the export of capital is continued—and expanded—the workers must necessarily be subjected to a reduction of the real wage.

But the raising of the wage level at every rise of the price level—even were it practicable—can not be carried out in a country under the capitalist system, because, as explained by *The Times* and proved in this chapter, it is the steady rise in the price level, the " secret mulcting " of the working classes, that alone maintains the expansion of production under the capitalist system. Any means, therefore, whereby the systematic robbery of the wage-earning classes would be arrested is irreconcilable with the expansion of production under the capitalist system. Therefore, under the capitalist system, the wage-earners must consent to tolerate systematic robbery of themselves by the reduction of real wages---until when the limit of human endurance is reached, the real wage is raised---in order that it might again be lowered by the raising of the price level.

The position between the employer and the worker, under the capitalist system, accordingly, is that the employer must allow the economic system steadily to reduce the real wage of his workers and that the employer must himself delay the raising of the money wage until the last possible moment. The worker, subject to a steady reduction of his real wage by the steady rise of the price level, must, by means of a strike, force the hands of the employer at the earliest possible opportunity.

Under those conditions, there never can be peace in industry, because, even if strikes are averted by such machinery as the Conference of the group of employers led by Sir Alfred Mond (now Lord Melchett) and the General Council of the Trades Union Congress resolved to establish in Great Britain, the workers in Great Britain must, under the capitalist system---if production is to be expanded---allow their employers to rob them through the raising of the price level, for some little time at least, after each fresh wage agreement. In a letter that Lord Melchett, as Sir Alfred Mond, wrote to *The Times* on May 25, 1928, he said:

> The improvement of industrial relations can be achieved only in an atmosphere of prosperity and at a time of rising wages.

Lord Melchett will not deny that rising wages will bring little contentment to the wage-earning classes if there is also a rising price level. If the Mond Conference is to lead to a new era of peace in British Industry, it is the continuous and uninterrupted raising of *the real wage* that is indispensable.

The conference between the Mond group of employers and the General Council of the Trades Union Congress received the warm and consistent support of *The Times*. It is the duty of *The Times* to explain to the leaders of the British Labour movement how peace is to be maintained in industry when, under the capitalist system, as explained by *The Times*, "industrial production" can be "stimulated" only by a rise in prices—in advance of a rise in wages—a process which involves "the secret "mulcting," the wholesale robbery of the wage-earning classes of Great Britain behind their backs.

The conference between the Mond group of employers and the General Council of the Trades Union Congress is only another example of the audacity with which the capitalists in Great Britain are exploiting the willingness of the wage-earning classes peacefully and honestly to labour if only the wage-earning classes are ensured continuous work and subsistence upon some decent standard of life. So long, however, as goods are exported on credit from Great Britain to other countries, so long must the price level rise and precipitate wage disputes.

The unusually long period of industrial peace in Great Britain after the coal strike of 1926 has been coeval with a decline in the export of goods and services on credit and a steady, if slow, fall in the price level. The most disturbed periods in industry in Great Britain, Germany, France, Sweden, the United States of America and even India have been the periods during which large exports of goods have been made on credit or against imports of the precious metals. The exports of goods on credit forces up the price level as surely as the export of goods against imports of the precious metals. Whether goods are exported on credit or against imports of the precious metals, the price level is forced up by the shortage of the goods that the wage-earning classes consume.

The working classes after the war will gain far more by a general fall in prices than by a continued rise in money wages.

Their leaders seized the point even at the beginning of the war.

They said to the government: Stop the rise in prices and we will stop the rise in wages.

Unfortunately, whether by the force of circumstances or by the weakness of government, *this counsel of perfection* was not followed. —*Professor J. Shield Nicholson, " Inflation," P. 101.*

The individual employer, although he might do much to alleviate the lot of his own workers by a generous wage policy, can not completely negative the systematic robbery of his wage-earning workers under the capitalist system. Mr. Henry Ford, one of the world's greatest producers, has, as is well known, enforced a policy of steadily reducing the price of his car from time to time, in order to bring it within the incomes of a larger number of the people every year, and of steadily raising the money wages paid to his workmen.

Mr. Ford will be the first man to admit that there would be little benefit to him or to any one else in the country if every time he brought down the price of his car, there was a rise in the price of foodstuffs, clothes, shoes, housing and all the other necessaries of life. Mr. Ford was forced to protect his workers against increased prices charged by retail dealers by himself opening retail shops for their benefit and, as he is a firm believer in a low price level, he has gone still further and thrown open his shops to the general public.

The shopkeepers of St. Louis and Detroit are persisting in their efforts to organise a boycott against him (Mr. Ford) and his cars. They are refusing to deal with wholesalers who supply his shops with goods or who deliver goods in Ford cars.

It is several months since the motor-car manufacturer threw open his shops, originally established for his workmen, to the general public.

He now has a huge " general market " at Highland Park, two mammoth markets at Lansing, and others in Kentucky and at points traversed by his railway.

With his immense buying power Mr. Ford is able to obtain all goods at bottom prices. His profits on these shops last year are reported to be in excess of £200,000. Yet he can sell the best steak at 10d. a lb., bacon at 7d. a lb., and baking-powder at 8d. a lb. less than the ordinary retailers.—*From a message from the New York correspondent, " The Daily Mail," April 2, 1927.*

A general rise of prices affects the buying-power of the community far more seriously than the rise of prices in a group of retail shops. Mr. Ford, therefore, is quite capable of appreciating the fact that reductions in the price of his car or increases in the wages of his workmen are negativated by a systematic rise in the price level as a result of the export of goods, including food, clothes, shoes and the other necessaries of life, from the United States of America to other countries on credit—apart from the fact that the rise in the prices of raw materials must retard the reduction of the prices of Ford motor cars and tractors. Mr. Ford can not deny that the export of goods on credit must raise the price level in the United States of America.

Now, the price level in the United States of America has been steadily falling since 1919, that is, since the exports of goods on credit from the United States of America has been declining. The decline in the exports of goods on credit and the accompanying fall in the price level are shown by the following statistics:

Year	Amount of Surplus of Exports in Dollars (Excluding Trade in Bullion)	Amount of Surplus of Exports in Dollars (Including Trade in Bullion)	Index of Wholesale Prices [1]
1919	3,922 millions	4,363 millions	206·4
1920	2,987 ,,	2,909 ,,	226·2
1921	1,822 ,,	1,143 ,,	146·9
1922	691 ,,	445 ,,	148·8
1923	358 ,,	62 ,,	153·7
1924	922 ,,	700 ,,	149·7
1925	642 ,,	811 ,,	158·7
1926	303 ,,	228 ,,	151·0

Nothing could be more remarkable than the steady decline in the exports of goods on credit from the United States of America and the steady, accompanying decline in the price level between 1919 and 1926. That confirms what has already been proved in this chapter, namely,

[1] "*Statistical Abstract of the United States, 1928*," P. 317.

that it is the export of goods on credit that raises the price level in a country.

If the United States of America had continued after 1919 to maintain large exports of goods on credit, the price level in the United States of America——after the severe fall of prices in 1920——would have steadily risen, and the efforts of Mr. Henry Ford to increase the circle of the prospective purchasers of his car, by reducing the price of his car, would have been more heavily discounted than they have been.

The enforcement of Mr. Ford's fundamental business principle can, therefore, be only partly——if at all——successful under the capitalist system, and, as already explained, the exports of capital that Mr. Ford himself is now making must still further discount the operation of his fundamental policy. In other words, under the capitalist system, Mr. Ford, has, first, been compelled to allow the wage-earning workers in his industries to be robbed of the full fruits of their labour by other capitalists, and is, now, as an exporter of capital from the United States of America, directly robbing the wage-earning workers in his industries of the full fruits of their labour.

CHAPTER XXVI

"CA CANNY" A COROLLARY OF CAPITALISM

The Miscarriage of Mr. Henry Ford's Principles And Policies

IN every country under the capitalist system—not excepting the United States of America—the workers artificially restrict their own output or productive capacity. In Great Britain the restriction of output by the workers is a definite policy that is rigidly enforced under the regulations of the trade unions. That tendency is, however, now being openly combatted not only by the capitalists but also by the leaders of the workers.

In a speech delivered in June, 1916, the Right Hon. Philip Snowden, M.P., said he would like to see trade union policy changed, so that the unions would not be merely concerned, regardless of the condition of industry, to get the highest possible wage they could screw out of industry, but would help to make industry thoroughly efficient, so that the means would be there out of which the highest wages could be paid.—*W. Howard Hazell*, "*Labour and Capital in Alliance*," *P. 82.*

The Rt. Hon. J. R. Clynes has written:

It is only fair that workers should have safeguards against more unemployment, and it is both just and wise that they, as well as the others participating in industry, should reap proportionate benefits from increased production.

It is only right to have these safeguards, but I do not hesitate to go further, and say, that even without safeguards, *it is more to the interest of workmen than of any class to increase production.*

Another statement made by Mr. Clynes was the following:

If workmen deliberately reduce the volume of national wealth by lessening output, they reduce their own chances of raising the standard of living.

Mr. W. A. Appleton, C.B.E., the Secretary of the General Federation of Trade Unions, in his book, entitled, *Unemployment* writes:

Higher standards of living must ever be associated with higher standards of production. It is difficult to persuade the unemployed that improvement in his position may best be secured if those in employment increase their efforts.

If men continue to hold the view that production according to capacity is economically and morally wrong, disaster seems certain.

The Rt. Hon. C. W. Bowerman, M.P., formerly Secretary of the Trades Union Congress, wrote as follows in *The Times* of August 27, 1919:

The point on which we must concentrate is increased output and continued production.

The Rt. Hon. G. N. Barnes stated in an article on Trade Unionism in *The Daily News*:

Labour must make up its mind to seek improved conditions of life, in greater production of goods, and should also agree to each industry standing on its own legs.

The declarations of the British Labour leaders quoted above (from *Labour and Capital in Alliance*, Pp. 82–83) are based upon the profound truth that the wealth of a community consists of goods and that the increase of the quantity of goods that go directly into consumption or are exchanged for the goods of other countries that go into consumption is the first condition of an increase of the economic welfare or prosperity of a community. It is an essential corollary to that absolutely sound economic principle, however, that there should be no loss of the production of the community. In other words, if the workers are to benefit by the increased production of the workers, the production must go into consumption or use by the workers or be exchanged for other production that would go into consumption or use by the workers. If the increased production were tossed into the sea, no one in the community would be any the better for the increased production.

The export of capital from the industrial countries of Europe and the United States of America causes a leak in the container of the production of each of those countries. It is admitted by the advocates of the export of capital that, at any rate, in the first instance, the export of capital, in the words of Professor Maynard Keynes, " brings in no immediate return," and it is also admitted by the supporters of the export of capital that the ultimate return, if any, depends on the collection of the interest in goods.

It has been decisively proved in this work that, under the capitalist system, there is not, and that there never can be—except in abnormal circumstances—the collection of interest in goods on exports of capital. Thus, were the workers in Great Britain to follow the counsel of their leaders——misled by the pretences of the capitalists and the economists——and increase output, the additional output would only be given to foreign countries on credit and neither the working classes nor any one else in Great Britain would derive any benefit at all from increased production.

" Ca Canny," as the deliberate restriction of output by workers is described in Great Britain, is an intensely human reaction to the export of capital, which is inherent in the capitalist system. Napoleon revealed his profound insight into human life when he said, " Man is " the creature of circumstances." All human actions are reactions to environment. That is the truth embodied in Napoleon's words. " Ca Canny " has really saved the masses of the working classes in Great Britain from more unemployment and more misery than they have endured. " Ca Canny " is the sheet anchor of the worker under the capitalist system.

It is in Great Britain, which has exported capital on a larger scale than any other country in the world, that the deliberate restriction of output by the workers is most firmly established. That is proof of that human instinct, which so often guides men when they are unable, by the exercise of their perceptions and reason, to discover the real cause of a phenomenon. The instinct of the supposedly stupid British workman has told him that the economic system under which he is working is in some inscrutable way depriving him of the fruits of his labour, and he has reacted to that consciousness by the deliberate reduction of his own efficiency.

So long as the British Labour leaders are unable to stop the export on credit of "goods of rapid consumption" and of all goods and services—because all goods and services are convertible into "goods of rapid consumption"—so long will the increased output of British workers add not one loaf of bread nor one suit of clothes to the present supplies of bread and of clothes of the working classes. Whatever might be the amount of the money wages paid to the working classes in Great Britain, there can be no improvement whatever in the condition of the working classes of Great Britain unless the quantities of foodstuffs and other necessaries of life in Great Britain are vastly increased. There can be no raising of the standard of living of the working classes in Great Britain under the capitalist system, because, under the capitalist system, increased production is exported on credit to foreign countries and there lost.

The economic salvation of the working classes—of the whole of the population of Great Britain, except that of the capitalist class, already suffering from a surfeit of goods—depends entirely upon the raising of a Chinese wall against the export of goods on credit. Even the committee that Mr. Lloyd George appointed in 1918 on Currency and Foreign Exchange, over which Lord Cunliffe, then Governor of the Bank of England, presided, said that. The Cunliffe Committee declared:

The large payments which we have to make to America, North and South, for necessary imports of foodstuffs and raw materials from those countries, ***make it essential that we, in our turn, should secure payment in cash for as large a proportion as possible of our exports, visible and invisible.***

We recommend therefore that preference should be given to exports to countries which are able to make payment in the ordinary course of trade.—*Final Report of the Cunliffe Committee, Paragraph 3.*

It is the power that the capitalist class in Great Britain possess of compelling the production of unnecessary "durable wealth" and of exporting to other lands on credit both "goods of rapid consumption" and "durable wealth" that has made the enforcement of the recommendation of the Cunliffe Committee impossible.

Mr. Henry Ford has avowed that the policy on which he conducts his industries is to pay high wages—thereby distributing the goods produced or their equivalent in other goods among the workers who produced the goods—and, after taking a certain part of the profits in dividends for himself and his family (who are the sole shareholders of all the Ford Industries), to put the balance of the profits into the development of the enterprises.

The profits of the Ford Industries, other than a comparatively negligible amount, have gone back into the industries.—"*Today and Tomorrow*," *P. 36.*

By enlarging the plants and increasing production Mr. Ford has steadily cheapened production and provided the people of the United States of America with millions of motor cars. But Mr. Ford is also an exporter of capital. The products of Ford Industries have been sold on a vast scale in foreign countries, but corresponding quantities of other goods have not been imported into the United States of America. The products of the Ford Industries exported to foreign countries have, in large part, been converted into the establishment of factories in foreign countries, and the amount of "durable wealth" that Mr. Ford and his family hold in foreign countries is enormous. The products of the Ford Industries that have been invested in foreign countries have been completely lost to the men who made them, that is, the wage-earners in the Ford Industries, the American people.

It might be objected that that argument is the argument of a narrow and selfish nationalism and that the benefits of the industrial system should be extended all over the face of the earth. If it is argued that Mr. Ford should not shirk the obligation of providing capital for the establishment of motor car building plants in the Irish Free State, Great Britain or Brazil, it might just as well be argued that he should not shirk the obligation of providing capital for the building of motor car building plants in every country in every corner of the world.

However desirable it might be that Mr. Ford should start Irishmen, Spaniards, Brazilians, Chinese, Indians, Persians, Abyssinians or Liberians in the production of motor cars, it is, surely, ridiculous for Mr. Ford or any one else to pretend that Mr. Ford should teach Englishmen and Frenchmen how to build motor cars, and above all, provide them with the capital for the purpose. Great Britain and France are exporters of capital. Whatever might be the shortcomings of British and French methods of motor car production, a Ford plant in Great Britain or France is not essential to the better education of British and French manufacturers. The British and French manufacturers are not very behindhand, after all. The Morris car, on the contrary, beat the Ford T Model, and an all-British car holds the world's speed record. The export of capital from the United States of America to Great Britain is the very apex of absurdity. It is the carrying of coal to Newcastle.

The fact must be faced that, if the workers in the Ford Industries are to give up a part of their production to provide every country in every corner of the world with motor car building plants, only a part—a diminishing part—of the production of the Ford Industries will be divisible among the workers in the Ford Industries. Mr. Ford, who himself recognises that capital is production held back from consumption, will be the first to repudiate the suggestion that the people of the United

States of America must shoulder the task of producing capital for the "development" of the whole of the rest of the world.

Nor can Mr. Ford pretend that the establishment of motor car building plants in countries outside the United States of America needs large sums of capital from the United States of America. The Ford Industries, now estimated to be worth between $800 millions and $1,000 millions, were built up during the short space of twenty years out of a few thousand dollars possessed by Mr. Ford and some others, and Mr. Ford writes what every one knows is quite true:

> It has been our policy always to keep on hand a large amount of cash—the cash balance in recent years has usually been in excess of fifty million dollars. This is deposited in banks all over the country.
>
> We do not borrow but we have established lines of credit, so that if we so cared we might raise a very large amount of money by bank borrowing. But keeping the cash reserve makes borrowing unnecessary—our provision is only to be prepared to meet an emergency.—"*My Life and Work*," *Pp. 164–65.*

Mr. Ford, moreover, believes that a large capital is a fundamentally false basis upon which to build up a business. He writes:

> A business ought to start small and build itself up and out of its earnings.
>
> If there are no earnings then that is a signal to the owner that he is wasting his time and does not belong in that business.
>
> I have never found it necessary to change those ideas, but I discovered that this simple formula of doing good work and getting paid for it was supposed to be slow for modern business. *The plan at that time most in favour was to start off with the largest possible capitalization and then sell all the stock and all the bonds that could be sold.*—"*My Life and Work*," *Pp. 38–9.*

Mr. Ford has, certainly, changed those ideas since the publication of *My Life and Work*. The Ford Company of Great Britain, organized in 1928, has a capital of seven million pounds sterling, that is thirty-five million dollars. The amount of the capital staggered the British public, accustomed though it is to associate American businesses with big " capitalization." Except for two-sevenths of the capital, the whole of the capital was provided by Mr. Henry Ford and his family. That capital consists of products of the Ford Industries sold in Great Britain and other countries that have not gone back in other goods to the United States of America,—to the millions of people in the United States of America who in one way or another work in or for the Ford Industries.

Contrast the formation of the Ford Motor Company of Great Britain (the organizers of which launched a big publicity campaign to " sell all the stock and all the " bonds that could be sold ") with the history of the Ford Motor Company in the United States of America. The following is Mr. Ford's own account:

> A week after the race I formed the Ford Motor Company. I was vice-president, designer, master mechanic, superintendent, and general manager.
>
> The capitalization of the company was one hundred thousand dollars, and of this I owned 25½ per cent. *The total amount subscribed in cash was about twenty-eight thousand dollars—which is the only money that the company has ever received for the capital fund from other than operations.*
>
> In the beginning I thought it was possible, notwithstanding my former experience, to go forward with a company in which I owned less than the controlling share. I very shortly found I had to have control and therefore in 1906, *with funds that I had earned in the company*, I bought enough stock to bring my holdings up to 51 per cent. and a little later bought enough more to give me 58½ per cent.
>
> *The new equipment and the whole progress of the company have always been financed out of earnings.*
>
> In 1919 my son Edsel purchased the remaining 41½ per cent. of the stock because certain of the minority stockholders disagreed with my policies. For these shares he paid at the rate of $12,500 for each $100 par and in all paid about seventy-five millions.—" *My Life and Work*," *Pp. 51–2.*

Twenty-eight thousand dollars is the equivalent of less than £6,000, and even allowing for the depreciation of the buying-power of money during the past twenty years, is less than £12,000 today—which contrasts sharply with the £7,000,000 of the Ford Company of Great Britain.

In selling shares in the Ford Motor Company of Great Britain to the public in Great Britain Mr. Ford made a departure from the principles he has laid down in his books.

> My ambition is to employ more and more men and to spread, in so far as I am able, the benefits of the industrial system that we are working to found; we want to help build lives and homes. This requires that the largest share of the profits be put back into productive enterprise. *Hence we have no place for the non-working stockholders.*—"*My Life and Work*," *P. 162.*

When the prospectus of the new Ford Motor Company of Great Britain was issued, the profits made by the existing Ford Motor plant in Great Britain were published to induce "non-working stockholders" to buy stock. What, however, makes the Ford Motor Company of Great Britain a complete and decisive repudiation of the principles of Mr. Ford is that the "capitalization" is for "expansion." The Ford Plant in Manchester, England, has been making a complete car since 1920. *Mr. Ford should explain why the expansion of the Ford business in Great Britain has not been possible out of the profits of the business*, especially when Sir V. Morris has been expanding his business by putting over a million pounds sterling of profits into the Morris works.

Mr. Ford is today the largest individual exporter of capital in any country. He is pouring millions of dollars into the wilds of Brazil. He may explain it in one way or another, but he can not deny the fact that the production that he is sending to Brazil, Russia, Great Britain and other countries (like the production that is being sent from the United States of America to build cinemas in every part of the world) is a loss of production to the workers of the United States of America and that the starting of Ford production companies in foreign countries—be they advanced countries like Great

Britain or undeveloped countries like Brazil—with millions of dollars of capital (that is products of the Ford Industries in the United States of America) is a contradiction of those principles upon which the first Ford Company was founded and the principles which Mr. Ford formulated in *My Life and Work* and *Today and Tomorrow*. Those books are, avowedly and defiantly, a defence of the capitalist system.

Time was when Mr. Ford argued against the export of goods on credit from Europe. He wrote:

> The reason why Europe thinks that it cannot manage without export is that the professional reformers, coming from below, and the professional financiers coming from above, have together squeezed the buying power out of the people, and the industries are forced to look abroad for markets—having exploited their own people, they seek to exploit other nations.
>
> There need be no vicious competition—the kind of competition that brings on war.
>
> If the home market is built up (and everywhere in the world this can be done), *then the export trade will be the natural and healthy exchange of commodities which one country can spare and another needs.*
>
> The present competition in the world markets is due largely to the exploitation of the people at home.—" *Today and Tomorrow*," *P. 29.*

Nevertheless, Mr. Ford has succumbed, like the meanest of mean capitalists upon whom he has poured contemptuous scorn, to the export of capital. If Mr. Ford follows his own principle of putting the profits of a business into the business, the millions of dollars of goods he is pouring into Great Britain, Brazil and other countries is for ever lost to the American people. Mr. Ford's own principle makes him a perfect re-exporter of interest.

Mr. Ford has no solution to offer for the problem of unemployment. When he visited Great Britain in 1928 he stated to the Press reporters that if the coal-owners had only raised wages in 1926 (instead of having tried to reduce wages), everything would have been as well in Great Britain as in the United States of America.

The Press reporters reminded Mr. Ford that there were at the moment millions of unemployed in the United States of America. Mr. Ford had just resumed production after a shut down for several months, during which time his workers had had no wages and "no "dole," because there is no unemployment insurance in the United States of America. In other words, the workers in the Ford Industries had had no bread boxes and no coal bins, no children's education and no family comforts and no contentment. Mr. Ford's reply to the reporters was worthy of a Parliamentary Under-Secretary. He said, "We have always had a large number of people "moving about our vast country."

CHAPTER XXVII

THE EXPANSION OF PRODUCTION UNDER THE CAPITALIST SYSTEM

The Accumulation of Unnecessary Fixed Capital The Sole Purpose

MOST definitely, increased production under the capitalist system is not intended for and is not received by the workers. What becomes of the increased production?

The answer to that question is written over the face of the whole earth. Increased production under the capitalist system, throughout the centuries, has gone to the piling up of needless fixed capital all over the world—from the Pyramids that rise over the deserts of Egypt to the railways that traverse the deserts of Australia.

It is because the capitalist system is mainly directed to the expansion of the production of useless fixed capital, not to the expansion of the production of goods of rapid consumption, that the industrial countries of Europe and the United States of America present the astounding paradox of a rise in the price level (which automatically reduces the buying power of the masses of the people) during periods of great production. Whether the fixed capital produced is exported abroad or buried in the country, the production of fixed capital must force up the price level and rob the working classes.

That, under the capitalist system, the working classes (in employment) are better off during periods of " depression " than during periods of " boom " or greater production is a fact that has puzzled the more observant economists. Professor Edwin Cannan writes:

Yet though the position of the unemployed is unpleasant, there is little doubt that *in depression the whole mass seems not only more industrious but also more contented and happy than in boom.*

Whether this is because it is really better off or only because the position of the employed, though absolutely worse, is better in comparison with that of the employers, is one of those interesting subjects of economic speculation to which no very certain answer can be given.—"*An Economist's Protest*," *Pp. 320–21.*

The main argument used in justification of the policy of adding to the fixed capital of a country in order to relieve unemployment is that the consequent rise in the price level stimulates the production of "goods of rapid "consumption" in the country.

The money wages that the workers engaged upon the production of fixed capital are given is, certainly, bound to stimulate the production of goods of rapid consumption, but as the quantities of goods that the whole community consumes can come only out of the total production of the country, the labour employed in the building of unnecessary roads, bridges, canals and telephones is entirely lost to the production of "goods of rapid con-"sumption." The enormity of the capitalist system lies in the fact that the production of "goods of rapid con-"sumption" is, at best, a reaction to the accumulation of needless fixed capital. "Goods of rapid consump-"tion" were produced for the subsistence of even the workmen who built the Pyramids of Egypt. No one would, however, bring that fact forward as an economic justification of the building of the Pyramids of Egypt.

Whatever might be the pretexts on which unemployed workers are put to the production of fixed capital, the fundamental facts are that fixed capital comes out of the total production of a country and that the accumulation of fixed capital——whether it be in the form of palaces, pyramids, roads, bridges, railways, canals, machinery, telephones or any other form of durable goods——represents the savings of production, that is, a suppression of consumption by the masses of the people.

The Liberal Party of Great Britain has brought forward a programme for the solution of the economic problem of Great Britain. The whole purpose of the programme is a vast addition to the fixed capital or durable wealth of Great Britain. There is no other purpose even insinuated in the programme. The Economic Programme of the Liberal Party has been drawn up not in order to equip Great Britain with roads and canals that are necessary but in order to devise means by which work of one kind or another might be created for hundreds of thousands of unemployed.

All the labour that is to be employed, under the Economic Programme of the Liberal Party, will add neither to the means of importing food and other necessaries of life nor directly produce foodstuffs or other necessaries of life. The labour that would be absorbed in carrying out the proposals of the Liberal Party of Great Britain—even the authors of *Britain's Industrial Future* must admit—can not directly or indirectly add a bushel of wheat, a yard of cloth or a single bit of leather to all the quantities of goods of which the masses of the people stand in dire need. Whatever food and the other necessaries of life might be added to the total quantities of "goods of rapid consumption" in Great Britain after the inauguration of the Liberal Programme of National Development would spring from the labour of other hands.

The capitalists of old—of Egypt, Greece, and Rome—accumulated fixed capital in their own homelands. One sees the final traces of Ancient Capitalism in the monuments of Bourbon rule in France and the magnificent palaces, theatres and public buildings built by the Hapsburg monarchy in Vienna. The capitalists of the Industrial Age, in contrast, scatter their accumulations of fixed capital over the face of the whole globe.

The export of capital from Great Britain has taken the form, as pointed out by Sir George Paish, of the export of railway material, and most of the railways of the world outside Europe and the United States of America have been built out of British railway material exported on credit. Nine-tenths of the railways of the world—

outside the United States of America and Europe——have been built on credit by Great Britain, eight-tenths being within the British Empire.

The railways that the capitalist class in Great Britain have forced upon the self-governing British dominions as loans (thereby repressing the expansion of production in the self-governing British dominions) constitute a crushing economic burden upon the self-governing British dominions. The economic life of Canada, Australia and the Union of South Africa is being literally strangled by tens of thousands of miles of absolutely unnecessary railway. Every one of the self-governing British dominions is struggling with railway problems such as never arose even in the United States of America.

Mr. F. W. Field, his Majesty's Trade Commissioner at Toronto, in his Report of June, 1923, wrote as follows of the Canadian National Railways, the largest of the three enormous railway systems of the Dominion of Canada:

> The appointment of a Board to administer the Canadian National Railways, with Sir Henry Thornton as President, was one of the important events of the year. *The task which faces the board is generally conceded to be one of considerable difficulty.*
>
> Although as a Canadian railway expert has recently said, *the operating deficit* might be assumed to have been eliminated in 1922, as against a shortage of $16,092,901 [£3,200,000] for the preceding year, and it will not return, *additions to capital account have been so large during the past two years in particular that the public burden arising out of fixed charges remains unchanged.*
>
> For example, advances to the Grand Trunk, Canadian Northern and Grand Trunk Pacific from the Dominion Treasury for the fiscal year ended March 1922, totalled $162,000,000 [£32,400,000].
>
> When liabilities on account of all the other units are reckoned, interest on additions to fixed charges will practically countervail the deficit of 1922. In other words, *the problem of the new Board is to make net earnings equal fixed charges of at least* $85,000,000 [£17,000,000].
>
> Referring in the Canadian House of Commons on February 5 to *the magnitude of the railway problem of the Canadian people*, Hon. G. P. Graham, acting Minister of Railways and Canals,

pointed out that the National Railway system is *the most extensive railway system in the world, and that Canada in entering upon the experiment of public ownership is undertaking the solution of the greatest railway transportation problem that has ever been attempted by any company or by any country.* He added:

"Government ownership is on trial in respect of *the largest* " *scheme that man has ever devised for the purpose of transportation,* " and it rests with the people, the Government and the Parliament " of Canada to allow the Canadian National Board to try this " experiment untrammelled."

The Canadian National Railway system comprises a total of 22,646 miles. . . . In 1921 *the operating deficit* was $11,720,000 [£2,340,000].

The affairs of the National Railways were discussed in detail in the House at Ottawa on March 27, when the estimates were introduced. The Minister asked Parliament to appropriate for the National Railways in the main estimates this year $73,000,000, [£14,600,000] as compared with $97,220,000 [£19,400,000] voted at the last session of Parliament.

The sum is required to meet operating deficit, pay interest on outstanding bonds, provide for refunding of indebtedness and for sinking funds, and to allocate $32,133,055 [£6,400,000] *for additions and betterments.*

The Government has taken over six hotels connected with the Grand Trunk Railway system. In 1922 the deficits of the six, including interest and depreciation charges, totalled over $717,600 [£143,500].—*Pp.* 54–5.

The Consolidated Balance Sheet of the Canadian National Railways on December 31, 1927, shows the astounding figure of $438,413,818 or £87,500,000 as the net deficit. (*Annual Report of the Canadian National Railways System for 1927, P. 13.*)

The railway lines of Canada run for thousands of miles through uninhabited country. Since the opening of the Panama Canal goods are transported from the provinces on the Pacific Coast to the Atlantic Coast and to Europe by sea, instead of by rail, and there is no prospect of increased traffic for the mighty railway systems which traverse Canada from East to West.

The Prairie Provinces, Manitoba, Saskatchewan and Alberta, form a complete economic unit. They are separated from the industrial area of Eastern Canada by *a thousand miles of undeveloped* *country*, and in some respects their interests are divergent from those of the older parts of the Dominion.—" *Report on Canada as a Market for British Goods, 1926*" *(P. 13), by F. W. Field, his Majesty's Senior Trade Commissioner in Canada and Newfoundland.*

The railways of Australia constitute a burden upon the governments of the Commonwealth and the states that is straining all their financial resources. Mr. R. W. Dalton, his Majesty's Trade Commissioner in the Commonwealth of Australia, in his report to June, 1927, writes:

The railways of Australia are almost entirely in the hands of the Federal and State Governments, the Federal Government being responsible for lines of national importance such as the Trans-continental lines, and the States for those which are within their borders. Administration is in the hands of Railway Commissioners in each State and for the Commonwealth lines. . . .

The total capital cost to 1926 of construction of railways by the various governments amounted to £288,391,955. . . .

Taking into account payment of interest on capital, working expenses and other charges, the losses on the State railways (*excluding the Federal railways which serve primarily a national need rather than an economic need, and on which there was also a loss*) were as follows; details are also added of the percentage of loss on capital cost of construction and equipment:

State Railways

	Loss	*Percentage of loss on capital cost*
	£	%
1920–21 . . .	3,660,798	1·62
1921–22 . . .	2,098,018	0·90
1922–23 . . .	1,234,856	0·51
1923–24 . . .	1,203,310	0·48
1924–25 . . .	472,439	0·18

The total of net deficits of all States from railway working (after payment of interest) *since 1911* has amounted to £24,090,673. [The Commonwealth Railways have never been able to meet interest charges and all are being run at a loss.]

As the interest on the increased indebtedness has to be paid in the main by the primary production of Australia, it follows that not only is a larger primary production made necessary by higher capital expenditure—and therefore higher interest—than might otherwise be necessary, but *the necessity for meeting working expenses and interest on capital may entail higher freight rates on produce which will make competition in the world's markets more difficult.*—*Pp. 89–91.*

The forcing of loans upon the Governments of the Commonwealth and the States of Australia by the capitalist class in Great Britain has placed Australia in a grave economic situation. Mr. R. W. Dalton in his report to June, 1925, records:

At the last Annual Conference of the Associated Chambers of Commerce held in March, 1925, the following resolution was passed after considerable discussion:—

"That this Conference, having considered the figures appended "to this resolution, feels compelled to draw attention to the present "financial position of Australia and the paramount importance "of every Federal and State Government curtailing expenditure and "restricting public borrowing to reproductive public works, *such "loans to be accompanied by a definite sinking fund to be provided by "the public works themselves. . . .*"

In moving the resolution on behalf of the Melbourne Chamber of Commerce, Colonel W. L. Raws, C.B.E., President of the Melbourne Chamber and since appointed President of the Associated Chambers of Commerce, put forward wording much stronger than was ultimately accepted by the Conference; and, in accepting the alternative wording he did so only under protest, expressing the belief that *the Conference was wilfully shutting its eyes to the seriousness of the position. . . .*

The gravity of the situation was increased by *the decline in the relative productive activity of the country, thereby rendering the interest charges still more out of proportion to the value of the production. . . .*

He felt bound to conclude that they were reaching a stage where *production was being prejudiced by the cost of development*, and it was on these grounds that he called for a cessation of borrowing and stringent economy in both public and private expenditure.—*Pp. 8–10.*

Owing to the fact, that the capitalist class in Great Britain has been forcing loans upon Australia, every form of extravagance is being perpetrated in Australia. The ill-fated Commonwealth of Australia shipping line, which involved a net loss of over £12 millions, would never have been established but for the lavish exports of capital from Great Britain to Australia. The steamers that the Government of the Commonwealth of Australia " bought " in London were exports of capital from Great Britain to Australia. The capitalists in Great Britain felt great annoyance over the entry of the Government of the Commonwealth into the shipping business, but it is the exporters of capital from Great Britain to Australia who were primarily responsible for that enterprise.

Canberra, the new capital of the Commonwealth of Australia, in which millions of pounds sterling of capital from Great Britain has been sunk, affords another example of the reckless extravagance of the Government of the Commonwealth of Australia. The Canberra correspondent of *The Times* writes:

> Both London and New York at certain seasons are said to be " empty," but life appears to go on all the same. In Canberra, when the Parliamentarians leave, " every one " is out of town. Officials walk hatless to their offices in the tempered summer sun, and, when they are at their desks, the city is deserted.
>
> Australia is known as a country of vast empty spaces, and Canberra is Australia in miniature. In 200 years these spaces will perhaps be filled, but in the meantime they have to be traversed. . . . The population is estimated at 7,000.
>
> On the whole it can not be said that Canberra has yet emerged from its experimental stage.—" *The Times*," *April 24, 1928.*

The governments of the states of Australia use the loans with which they are furnished by the capitalist class in Great Britain with equal wastefulness. Captain Anthony Eden, M.P., writes:

> Politically, Socialism has ruled in Queensland for the last ten years, and Governments have not failed to make full use of their powers. . . .
>
> The State owns and controls the railways (some might add subject to the railway-men's control of the State, reminiscent of the mutual swallowing of two cobras: we begin by the tail), subsidises certain of the mining industries, owns some of the mines, and indulges in a variety of trading activities from cattle stations to fish shops. Our Victorian tradition dictates that the function

of Government is to govern not to trade. Queensland strengthens tradition.

These enterprises, though numerous, are not remunerative. The Auditor-General's report shows a total accumulated loss on June 30, 1924, of £723,796, and a total indebtedness to the Treasury of £2,284,091. The bulk of the loss has been incurred by the State cattle stations. . . .

And let it not be forgotten that these enterprises pay no income tax, either State or Federal, nor, we believe, do they pay any local taxation.

The sheep has a broad and a strong back; may be he needs it in Queensland.—"*Places in the Sun*," *Pp. 59–60.*

The Union of South Africa is grappling with a problem of superfluous railways no less grave than that with which the Dominion of Canada or the Commonwealth of Australia is faced. The recklessness with which railways have been dumped on credit upon South Africa is shown in the following statement of the facts:

The year 1886 saw the opening up in South Africa of the world's greatest goldfield. President Kruger gave to the world the right of access to the gold reef of the Witwatersrand, and since then railway development has made rapid headway in this country. . . .

The outcome was a feverish race *from five different points of the littoral* to link up by rail with the rapidly rising metropolis of Johannesburg. The Cape Province was the first to effect through communication with the new goldfields by reason of the stimulus afforded by the discovery meanwhile of the diamond fields of Kimberley.—*Edson Rich*, "*The Nation's Business*" (*The Journal of the Chamber of Commerce of the United States of America*), *October, 1927.*

It is because the self-governing British dominions, India, the Crown colonies and the protectorates have been the chief dumping grounds for the exports of goods on credit from Great Britain that the British Empire has been associated with British Capitalism. It is only the bare truth that, but for the existence of the British Empire, the export of capital from Great Britain in the hundred years before the World War of 1914–18 would never have attained the disastrous dimensions it attained.

It is another example of the intuitive reaction of the human mind to facts that it does not understand that in the nineteenth century, while Great Britain was pouring capital into India, Canada, Australia and the Crown colonies, the Labour Party and the working classes of Great Britain resolutely opposed the expansion of the Empire and were (until the World War of 1914–18) openly hostile to the Imperial Idea. Under the capitalist system, the Empire, instead of being a blessing to the masses of the people of Great Britain, has been a means by which a vast part of the fruits of the labour of the masses of the people of Great Britain has been drained away from the homes of the masses of the people of Great Britain.

It was the fact that the Empire served as a dumping ground for the export of capital from Great Britain that led Joseph Chamberlain to say:

> It (the British Empire) was created by commerce. It is founded on commerce, and it could not exist today without commerce.
>
> For these reasons, among others, I would never loose the hold which we now have over our great Indian dependency—by far the greatest and most valuable of all the customers we have or ever shall have in this country.
>
> For the same reasons I approve of the continued occupation of Egypt; and for the same reasons I have urged upon this Government, and upon previous governments, the necessity for using every legitimate opportunity *to extend our influence and control in that great African continent which is now being opened up to civilization and commerce*; and lastly, it is for the same reasons that I hold that our navy should be strengthened until its supremacy is so assured that we can not be shaken in any of the possessions we hold or may hold hereafter. . . ."—*Foreign and Colonial Speeches by the Right Honorable Joseph Chamberlain, M.P., 1897, Pp. 101–2.*

It was during the nineteenth century that the chief investments of British capital were made in India. The Egyptian war was undertaken in the interest of English bondholders, and the reference to the " great African " continent, which is now being opened up to civilization " and commerce," shows clearly that the commerce that

Joseph Chamberlain had in mind was the export of capital, not the exchange of goods.

That the production of goods that form fixed capital has been the principal economic purpose of the capitalist system, which goes back to the Stone Age, is proved by the abundance of fixed capital left by the empires that have passed away—by Nineveh, Babylon, Egypt, Greece, Rome, Hindustan—and by the abundance of fixed capital that has been produced by the industrial countries of Europe and the United States of America.

CHAPTER XXVIII

THE TRAIL OF THE STEEL RAIL

The Responsibility of German Capitalism for the World War of 1914–18

The industrialization of Germany commenced only after the Franco-German War of 1870–71, but the development of the industries was astonishingly rapid. At the beginning of the present century Germany stood at the head of the world in the amount of industrial production. The iron and steel industry of Germany was larger than that of any other country in Europe and formed the basis of the mighty industrial organization of the country.

In 1913, Germany produced 19,309,000 tons of pig iron and 18,940,000 tons of raw steel.

The English production amounted to 10,650,000 tons of pig iron and 7,790,000 tons of raw steel, and the French to 5,210,000 tons of pig iron and 4,690,000 tons of raw steel.

The German iron and steel industry was thus twice as large as the English, and approximately four times as large as the French. Further Germany was the chief iron-exporting country in the world.—*Memorandum on the German Iron and Steel Industry submitted to the World Economic Conference of May, 1927, by Dr. C. Lammers.*

The German iron and steel industry, with twice the output of the iron and steel industry of Great Britain, found itself at the beginning of the twentieth century with practically no opportunities of exporting its products on credit to foreign countries. The other countries of Europe had already been supplied with nearly all the railways they needed. Military considerations barred the Germans from building railways in Russia. In South America British capital had already been so largely invested that no investments of German capital could be made. Outlets for the products of the mighty iron and steel industry of Germany could be found only by the intensive exploitation of the home market and the acquisition of a great colonial empire.

In the twenty years before the outbreak of the World War of 1914–18 the iron and steel industry of Germany exploited the home market with a thoroughness without a parallel in the whole history of modern Capitalism. The result was that when in 1914 the World War broke out Germany had the most magnificent railway transport system in Europe——if not in the whole world. Germany has the densest network of railways of all countries in the world. In Germany there are 118·5 kilometres to each 1,000 square kilometres as against only 40 in the United States of America. In addition, there are magnificent railway stations, shunting yards and workshops, and the whole service is equipped with a completeness that has never been even dreamed of in any other country.

The railway specialists who reported to the Dawes Committee in 1924 on the German railway system valued the German railway system at over 25,000 million gold marks or £1250 millions. No one who has not travelled widely in Germany and other parts of the world can form any idea at all of the magnificence of the equipment and the completeness of the organization of the railway system of Germany.

What affords even more significant evidence of the enormous power and influence exercised by the iron and steel industry in Germany is the extent to which it forced the Socialist Governments, after the establishment of the Republic, to invest further capital in the railway system. The railway specialists consulted by the Dawes Committee in 1924, who included Sir William Ackworth, reported:

Capital has been so lavishly spent in the last few years that there can be no justification for further expenditure for some years to come. . . .

The expenditure on rolling stock and works of every kind has been extravagant since the war. . . .

We shall see later that the expenditure incurred since the war for new works, and especially for rolling stock has been very large. It has in our judgment gone much beyond the real needs of the railways.

For rolling stock alone there has been charged against the various budgets, a sum of more than three milliard gold marks, [£150 millions] which has enabled the railways to acquire more than 18,000 new locomotives and more than 400,000 new carriages and wagons.

We think, therefore, that broadly speaking, the capital account can be entirely closed for some years to come, without any injury to the railways. . . .

It [the German Government] has spent capital not merely on restoring the pre-war situation but on betterments of all kinds which under the existing conditions can not be justified.

The railways have not merely been restored to their pre-war state of efficiency, but have been brought up to a much higher standard, a standard which to the best of our knowledge is superior to that of any other country.

We are given to understand that even inside the Ministry itself this policy has been severely criticised. *The excuse is that the pressure of the great manufacturers to keep their works going* and to avoid a wholesale dismissal of employees, which might lead to revolts and even revolution, *was too strong to be resisted. . . .*

Whatever may have been the reason, there can be no doubt of the facts.—"*Reparations Commission, Official Documents, XIV,*" *Pp. 79–93.*

The intensive exploitation of the home market in the years before the World War of 1914–18 had given but little scope to the mighty iron and steel industry of Germany, even though so large a part of its production had gone into the construction of warships and artillery. From the beginning of the nineties of the nineteenth century the hand of the railway manufacturers, the spear head of the iron and steel industry, was to be seen in the foreign policy of Germany. Concessions for the construction of railways were wrung from China, railways were built in the newly acquired colonies in

Africa and, finally, came the greatest success of German Imperial diplomacy——the concession to construct the Bagdad railway.

All the concessions obtained in foreign lands gave the German railway material manufacturers, however, only comparatively small opportunities for the disposal of their enormous output. The railways the German railway material manufacturers were building could not be compared with the mighty railway systems that were to be found all over the British Empire. Upon Canada British manufacturers of railway material had dumped 40,000 miles of railway on credit, and on India 36,000 miles of railway——also on credit. In other words, in each of those two countries a railway system had been built larger than that the German manufacturers of railway material had, by the most intensive effort, succeeded in building in Germany. Australia had a railway system very nearly as large as that of Germany.

The oversea parts of the British Empire, at the beginning of the present century, still offered excuses for the dumping of railways on credit, and with twice the capacity of the iron and steel industry of Great Britain German Capitalism saw itself with practically no opportunities of disposing of its products——on credit. In the second decade of the present century the iron and steel industry of Germany was heading straight for a shut down.

The "open door" policy on which the European Powers——"the Concert of Europe"——had determined afforded no hope to German Capitalism. As General Bernhardi wrote in his book, *Germany and the Next War*:

> A Triple Alliance—Germany, England, and America—has been suggested. But for such a union with Germany to be possible, England must have resolved to *give a free course to German development side by side with her own, to allow the enlargement of our colonial power, and to offer no political hindrances to our commercial and industrial competition.*—P. 99.
>
> *An intensive colonial policy is for us especially an absolute necessity.* It has often been asserted that a "policy of the open door" can

replace *the want of colonies of our own*, and must constitute our programme for the future, just because *we do not possess sufficient colonies*. . . .

The principle of the open door prevails everywhere—in Egypt, in Manchuria, in the Congo State, in Morocco—and everywhere the politically dominant Power controls the commerce; in Manchuria Japan, in Egypt England, in the Congo State Belgium, and in Morocco France. . . .

A "policy of the open door" must at best be regarded as a makeshift, and as a complement of a vigorous colonial policy. *The essential point is for a country to have colonies of its own* and a predominant political influence *in the spheres where its markets lie. Our German world policy must be guided by these considerations.* —*P. 108.*

The prosperity of Great Britain was attributed in Great Britain itself—the paper Sir George Paish read before the Royal Statistical Society in 1909 may be quoted as an example—to the export of railway material on credit to the various parts of the Empire, and the mighty railway maps of Canada, India and Australia literally mocked the German iron and steel industry in the years before the World War of 1914–18.

Under the capitalist system, a vast colonial empire became a vital necessity to the iron and steel industry of Germany. With the rapid expansion of that industry after 1900 that fact was increasingly apparent to the German capitalists, and the acquirement of colonies became, from the beginning of the present century, the principal object of the foreign policy of the old German Empire. The chief protagonist of the idea of a great colonial empire was Albert Ballin, the head of the Hamburg America line, the genius who re-organized the entire German shipping trade in order to intensify the competition with the British Mercantile Marine, the recognized leader of German Capitalism and the intimate friend and counsellor of the ex-Kaiser, Wilhelm II.

The outbreak of the Portuguese Revolution led the Imperial German Government to submit to the other Great Powers a proposal for the partition of the Portuguese colonies. In the crisis that preceded the outbreak of the World War of 1914–18 Germany refused to give Great Britain the undertaking that, if Germany were victorious, Germany would not annex the French colonies. A great colonial empire was thus clearly the main objective of the foreign policy of the old German Empire.

However much a great colonial empire might have appealed to the vanity of the German people or their rulers, it was only to the capitalist class in Germany—seeking outlets for the export of capital—that a colonial empire was a vital and pressing necessity. Neither the Emperor, the kings, the soldiers nor the people had any direct interest in colonies.

The capitalist class in Germany represented the most powerful force in Germany before the World War of 1914–18. The Revolution has not shaken the power of the capitalist class in Germany, and the Socialist Governments since 1918 have functioned under the heel of the Colossus of German Capitalism. The capitalist class in Germany today is more firmly established and more thoroughly organized than the military class in Germany was before the World War of 1914–18. The German army was the show-horse of the old German Empire. The real power in Germany was the Colossus of German Capitalism, and Emperor, kings and soldiers merely kept step to the giant's stride.

Hindenburg anticipated the verdict that History will eventually register when in his speech at the opening of the Tannenburg war memorial in 1928 he repudiated the charge that the German army was responsible for the war. Hindenburg uttered the truth. The German imperial army was a machine to obey orders. It did not influence or decide the policy of the German empire.

The German General Staff could not have desired war in 1914 any more than at any other time. General von Moltke, the Chief of the General Staff, was an old man. So was every senior officer in the German army in 1914. Von Moltke and most of the corps commanders were physically unfitted to take the field. As soldiers, they had, in time of peace, prepared for war with the thoroughness of their race. Von Moltke was taken by surprise when he was summoned from his estate to mobilize the army.

Falkenhayn who was Minister of War in 1914 had no personal ambition to gratify. Hindenburg was in retirement, and Ludendorf was still an obscure general of brigade. It is true he had been Chief of the Operations Department of the Great General Staff, but his proposal for raising the strength of the German army by three army corps, although it secured the support of von Moltke, was defeated. Mackensen could hardly have had a premonition of his singular record as the only one of the German generals who never met with defeat in the field. Von Moltke, Falkenhayn, Hindenburg, Ludendorff, Mackensen could not have desired war, and even if they had desired war, had no power whatever to provoke a war. They had been told that war was coming, and, as Ludendorff says in his Memoirs, from 1911 onwards the officers of the German army worked hard to prepare the army for the day of battle.

History has, already, vindicated the Crown Prince of Germany from responsibility for the World War of 1914–18. Upon the personal responsibility of the ex-Kaiser emphasis is steadily declining. The German Empire of 1914 could not have been hurled into a world war even as Frederic the Great hurled Prussia into war against Maria Theresa in 1741. Some mighty influence alone could do the deadly work.

It was the Colossus of German Capitalism that drove Germany into war in 1914. The year, 1913, saw the peak of a trade cycle. Exports of capital from Great Britain and Germany reached a very high level. With the beginning of 1914, however, a notable decline in the demand for fixed capital on credit from the industrial countries of Europe was observed, and every capitalist country was faced with a severe " depression in trade."

Upon German Capitalism, the mightiest capitalist organization in the whole world with a vast amount of production to export on credit and the smallest opportunities of exporting production on credit, the decline in the demand for fixed capital all over the world——a world surfeited with fixed capital——heralded disaster. The hour to strike at the great colonial empires of Great Britain and France and to secure the domination of the whole of central and south-eastern Europe by destroying the military power of Russia had come.

The lust of conquest must necessarily appeal to the masses of any people held upon the bare level of subsistence by an economic system from which they know no escape. If the German people rushed to war in 1914, misled by promises of victory and "prosperity," the responsibility lies with the economic system that had both exploited and demoralized them.

That the most urgent need of German Capitalism in 1914 was opportunities for the export of fixed capital is written in iron and steel in every part of Germany. Before the World War of 1914–18 there was no country in the world with a larger weight of fixed capital per square yard of territory or per head of population than Germany. After the World War of 1914–18, the fixed capital of no country in the world——not even that of the United States of America——was added to as largely as the fixed capital of Germany. For twenty-eight years under monarchical or republican rule, the disposal of redundant fixed capital has been the sole economic problem of Germany——empireless Germany. The war guilt of German Capitalism is stamped upon the face of Germany in steel and iron.

When the German army had collapsed under the blows that the genius of Marshal Foch rained upon it on the bloody fields of France and Flanders, Hindenburg and his fellow-officers led the German soldiers back to their homes with a calm resignation to the will of fate and without the slightest betrayal of remorse. The bearing of the German army leaders under the stunning disaster and crushing humiliation of 1918 was not the bearing of men who felt the pangs of conscience. Theirs was not the bearing of men who had gambled in human blood for glory. To the German army the Armistice of November 11, 1918, was the termination of a tragic duty. To German Capitalism the Armistice was the beginning of disaster, and although Kaiser, kings and army commanders might survive the blow, the man who had ridden the mighty Colossus of German Capitalism and had dreamed of a magnificent colonial empire could not. Before even the surrender of Germany could be accomplished by the signature of the Armistice Albert Ballin lay dead in Hamburg.

CHAPTER XXIX

THE LURE OF A NATION OF CAPITALISTS

Re-Distribution of Wealth Can Not Be Secured under The Capitalist System

THE upholders of the capitalist system argue that inequality in the distribution of durable wealth or property and of the new wealth that is annually produced is, under the capitalist system, essential to the maintenance of production. Nevertheless, the inequality in the distribution of property and of the new wealth that is annually produced in Great Britain and other countries is now so marked that the inequality in the distribution of property and of the new wealth that is annually produced is admitted to be mischievous.

In the Industrial Report of the Liberal Party of Great Britain, for example, it is stated:

> That property always has been unevenly divided is notorious. It may be that inequality of division is a condition of economic progress. But the fact to be faced is that the discrepancies now in this country are so glaring, and consciousness of them so acute, that the resulting discontent endangers the continuance of economic progress itself.—" *Britain's Industrial Future*," *P. 243*.

An equitable distribution of property in a country can be effected at any time by the simple expedient of the distribution of the rights to all the fixed capital in the country among all the adult citizens of the country, exactly as the property of a man might, on his death, be divided among his children.

In Czechoslovakia and Rumania the land is being distributed by the orderly processes of law among the peasants who cultivate the land. In France, during the Great Revolution of 1793, the land was divided among the peasants by violent means. In Russia, on the outbreak of the Bolshevist Revolution in 1917, the peasants seized the land that they had until then cultivated for their masters, the Russian nobility.

The property in the industries of a country today is represented for the most part by the shares of joint-stock companies, and the distribution of the industrial wealth of a country among the masses of the population could be effected even more easily than the distribution of the land in Czechoslovakia, France or Russia by the simple process of a re-distribution of the share certificates of joint stock companies.

Such methods of re-distribution of the fixed wealth of a country are not, however, the means by which the upholders of the capitalist system propose to bring about a less inequitable distribution of the fixed wealth that is annually produced in a country. For the attainment of the capitalist paradise of "a nation of capitalists" it is proposed that the wage-earning, salary-earning and professional classes should save some part of their meagre earnings—always at the mercy of the price level controlled by the capitalist class—and purchase land or shares in industrial joint-stock companies.

The argument that "a nation of capitalists" is a realizable ideal under the capitalist system is the most powerful argument that has been used since the World War of 1914–18 to reconcile the masses of mankind, who have shown increasing discontent with the capitalist system, to the continuance of the capitalist system. "The nation of capitalists" is declared to be the natural goal of the capitalist system, the inevitable paradise at the end of the road.

> Under an ideal capitalistic system every worker would be a capitalist and every capitalist would be a worker. And this is an ideal that is quite within the bounds of possibility.—*Hartley Withers, "The Case for Capitalism," P. 25.*

If by means of saving money and investing it, according to the advice given in the "money columns" in the newspapers, it is practicable for the masses of the people in Great Britain to succeed in obtaining control of the public utility companies, factories, mills and other productive organizations in Great Britain, the people of Great Britain would undoubtedly, in some distant age, become "a nation of capitalists." By that time, the masses of the people of Great Britain would also, it is to be presumed, develop those virtues that, under the capitalist system, are expected of capitalists.

The fixed capital of Great Britain, however, to use Mr. Lloyd George's description, "collieries, land, "factories, and harbours, all the property created and "developed by the trade and skill and energy of our "people," owned, as it now is, by a small number of capitalists, must, under the capitalist system, continue to remain in the hands of that small number of capitalists and their descendants.

The owners and controllers of the instruments of production and of the public utilities in Great Britain today have no motive whatever to part with their ownership of the land, the mines, the mills, the factories and the public utilities, so long as the revenue is sufficient to maintain their properties. There is no power of money that can compel the owners of the land in Great Britain, the owners of the coal mines, the owners of the factories, the owners of the mills, even the owners of the newspapers, to sell the rights of proprietorship, so long as those enterprises continue to prosper.

Therefore, however much the masses of the people might be able to save (despite an ascending price level controlled by the present owners of fixed capital) the instruments of production and the public utility services will, for the very greater part, continue to be in the possession of the present capitalists or their descendants. In the most favourable circumstances, even after the lapse of a century or two, only a tiny fraction of the shares of all the existing joint stock companies will pass from the hands of the descendants of the people who own them today to the masses of the people.

The controlling interest in the land, the mines, the factories, the mills, the shipbuilding yards, the banks, the newspapers must continue to be in the hands of the families that constitute the present capitalist class, whose descendants, except for a profligate minority, will find no difficulty in conducting their affairs with sufficient prudence to avert bankruptcy.

Lord Beaverbrook has made a public statement that he has withdrawn personal control of *The Daily Express*, leaving the conduct of that paper to men who, in his opinion, are better fitted than he to conduct it. He has with admirable candour explained that the only reason why he retains the controlling shares in the company that owns *The Daily Express* is that he desires to hand over the shares to his sons. If *The Daily Express* continues to be a source of income to the descendants of Lord Beaverbrook, the descendants of Lord Beaverbrook, during the next hundred or two hundred years, would have no motive whatever to part with a business, which would provide them with an income without asking of them a greater sacrifice than keeping off the premises. If a hundred years hence the descendants of the members of the first Labour Cabinet (of 1924) had by diligent savings accumulated a few million pounds sterling they would be wholly unable to buy the controlling interest of *The Daily Express* unless the descendants of Lord Beaverbrook were willing to part with the controlling shares in the company to the descendants of the members of the first Labour Cabinet of Great Britain. It might be argued that the accumulated savings of the descendants of the members of the first Labour Cabinet might be used to establish *The Daily Service* which might destroy *The Daily Express*. That could certainly be done, and the descendants of Lord Beaverbrook might even be completely driven out of the business of owning newspapers.

Any capitalist, Lord Beaverbrook has himself pointed out, can buy machines, "hire a staff" and start a newspaper. The establishment of a railway system or an omnibus service or the starting of a colliery or of a farm presents serious difficulties. Potatoes can not be grown except on land, and coal can be extracted only from a seam of coal. The land and the coal mines of Great Britain are already in the possession of a small body of capitalists, and no one can hope to acquire an acre of land upon which to grow potatoes or from which to mine coal, except with the consent of the small band of capitalists who own all the land in Great Britain.

In France, more than in any other country in Europe, there is, as is well-known, a very large number of people who save sums of money for investment. The money so accumulated by thrifty peasants and small traders in France ought to enable the peasants and the small traders to purchase the shares of industrial undertakings in France and in that way to acquire control of the mines, mills and factories and public utility organizations in France. Nevertheless, the mines, mills, factories and public utility organizations in France are as much under the control of a small capitalist class as in Great Britain or in Germany——and that too, despite the fact that the Great Revolution of 1793 effected a complete re-distribution of property in France and that neither in any other country in Europe nor in the United States of America is the scope for small private enterprises larger than in France.

The savings of the French peasants and small traders, instead of enabling the French peasants and small traders to wrench the control of the great industries of France from the capitalist class, have gone, instead, into the bonds of foreign countries. The investments of capital made by France in foreign countries consist chiefly of the savings of the peasants and small traders of France. That decisively proves that the savings made by the masses of the people in the industrial countries of Europe will never enable them to secure control of the fixed capital of their own countries.

In the United States of America since 1914 there has been a large increase in the number of people with "spare money," as the economist, W. Stanley Jevons, described capital, and in the United States of America economists insist that "the nation of capitalists" would be an accomplished fact before many more presidential elections have been held. Many people have seriously persuaded themselves that the people of the United States of America are destined, sooner rather than later, to become "a nation of capitalists." President Coolidge, addressing the Daughters of the American Revolution at Washington on April 16, 1928, said:

> We want the people to be owners of their property in their own right. We recognize that they are all capitalists by nature. We want them all to be capitalists in fact. *The result is being approached rapidly.*—"*The Chicago Tribune.*"

Analysis of statistics of the exports of capital from the United States of America has proved that most of the money that is being lent by the United States of America to foreign countries comes from the savings of people whose incomes are small. That fact has been used to show how quickly the United States of America is passing from a nation of a few big capitalists to a nation of many small capitalists.

The only reason why the people with small incomes in the United States of America who are saving money are buying Australian, Brazilian, Canadian, Danish, English, French, German, Hungarian, Nicaraguan, Persian, Russian, Siamese, Turkish or New Zealand bonds or securities is that it is quite impossible for them to buy shares in the productive organizations of the United States of America.

During 1927 and 1928 all the securities quoted on the New York exchange rose enormously in price—irrespective of the prospective dividends to be paid upon the stock. As "prosperity" was at the time trembling in the balance, the phenomenon proved completely baffling to the practical men of finance and business and to the theoretical economists.

The explanation of the phenomenon, however, is that the people in the United States of America who have saved money since 1914 are making desperate efforts to secure control of the shares of the productive organizations in the country. The present owners of the productive organizations being under no necessity to sell, naturally, refuse to release their shares, and the prices of the shares go from one fresh height to another, some of the shares—a very small percentage—changing hands at the higher altitudes.

With the raising of the market price of each share, the market price of the capitalization of each joint stock company is increased, and it becomes increasingly difficult for the would-be capitalists in the United States of America to buy shares. When, for example, the market price of a share rises from $100 to $300, the power of the masses of the people in the United States of America to buy the shares of the company or obtain control of the company is automatically diminished to a third. The shares of the joint stock companies of the United States of America as they ascend day by day are to the masses of the people who are diligently saving money in the hope of becoming capitalists even as the mirage of the desert—the shares are daily getting further from the reach of the masses of the people. The capitalist system condemns the would-be capitalists among the masses of mankind to the fate of Tantalus.

Mr. Henry Ford has stated that his mighty production plants directly or indirectly support over three million people and that if they, their dependents and all those who serve them were assembled in one city, the total population would be larger than that of New York. That is no exaggeration of the facts.

All the existing Ford plants in the world are owned by Mr. Henry Ford, his wife and his son—perhaps also by his daughter. Mr. Henry Ford himself holds the controlling shares. There is no combination of big or small capitalists which can wrench the control of the Ford plants or any share in the Ford Company from the iron grasp of Mr. Henry Ford and his family. Mr. Henry Ford declares that it is his fixed policy to keep the control of his plants solely under his control, and his son, Mr. Edsel Ford, will no doubt walk in his father's footsteps.

When it is pointed out that the whole of the automobile production of the United States of America is in the hands of only fourteen organizations, some idea might be formed of the prospects of the instruments of production in the United States of America becoming the property of the masses of the people of the United States of America, while men of the type of Mr. Ford hold the controlling interests in the production organizations of the United States of America.

Ex-President Coolidge is a most economical man. He is one of the world's greatest savers. On his vacating the Presidency it was stated in the Press that he had saved £50,000 from his salaries. Ex-President Coolidge can not, however, with all his money and influence, buy a single share in the Ford Motor Company of the United States of America.

In Great Britain also the people with small incomes who save money can have no hope whatever of obtaining control of the instruments of production and of the public utility services in Great Britain by means of purchasing shares, because the shares will never come into the market. The only bonds that the masses of the people of Great Britain can buy are the bonds issued by needy dominion and foreign Governments.

Thus, even theoretically, the people of Great Britain could become a nation of capitalists only by lending fixed capital goods to other parts of the world. Even granting that the export of capital has all the recommendations that the economists claim on its behalf, the conception of Great Britain as a nation of capitalists implies the supposition that in other parts of the world people would be content to be in the condition of the masses of the people of Great Britain today, namely, "hewers of wood and drawers of water."

The conception of Great Britain as a nation of capitalists is a striking manifestation of the narrowness of the outlook of the economists. If, under the capitalist system, a nation of capitalists is an economic possibility, nations of capitalists must arise in every land under the sun. The economists who talk and write airily of a nation of capitalists conceive of a nation of capitalists only in Great Britain,—and, perhaps, in the United States of America. If the capitalist system is the best economic system for mankind, it must serve India and the Argentine as well as it is expected to serve Great Britain or the United States of America.

Undoubtedly, by owning half the production plants and public utility services of half the world, the people of Great Britain might become "a nation of capitalists," but half the world would have to be reduced to the state of wage-slavery in which the masses of the British people exist today. Every one knows that half the world will not consent to be wage-slaves of the British people, the American people or any other people, however much they might be wage-slaves of their own capitalist class. Even the supposedly submissive peoples of India refuse to be the wage-slaves of a foreign nation. In Mexico, Rumania and Spain the property of the foreign absentee capitalist is being sequestrated, and in every country in which foreign capital has been invested there is a strong feeling against the absentee foreign capitalist.

The people of Great Britain can become a nation of capitalists only by the distribution among the people upon some equitable basis of the existing fixed capital in Great Britain and the continued distribution upon an equitable basis of all additions to the fixed capital of Great Britain. The amount of capital that a community needs is limited—it does not matter how high or how low the limit might be—and if a nation of capitalists is to be created at any time, it is the capital in the country at the time that must be equitably distributed. If a nation, having become a nation of capitalists, is to remain a nation of capitalists, *the economy of the country must provide for the continuous distribution of all new capital equitably among all the people.*

Under the capitalist system a nation of capitalists can never come into existence, because, under the capitalist system, the inequitable distribution of wealth is continued. *The first condition of the evolution of a nation of capitalists under any economic system must be the arrest of the inequitable distribution of new wealth*, and, as admitted by the upholders of the capitalist system, the equitable distribution of new wealth has not been attained and does not admit of attainment under the capitalist system.

In Great Britain heavy taxation of incomes has been imposed upon the capitalist class with the declared purpose of effecting a re-distribution of wealth. The Liberal Party, which was in office for long periods before the World War of 1914–18, enforced that policy, but that policy has completely failed, although even more drastically enforced since the World War of 1914–18 under the driving necessity of finding adequate revenues for the State.

The taxation of the capitalist class in Great Britain is thus described in the Industrial Report of the Liberal Party:

> During the last thirty years we have developed a steeply graduated system of taxation by income-tax, super-tax, and death duties, which has taken from the very rich nearly half of their incomes, and up to 40 per cent. of their capital at death —"*Britain's Industrial Future*," *P. 245.*

After quoting statistics compiled by Professor Clay, the Executive Committee of the Liberal Party which wrote *Britain's Industrial Future* thus records the results of taxation:

> These figures show that nine-tenths of the nation's capital is owned by less than one-quarter of the 17.7 million persons included in the above total; and that nearly two-fifths of it belongs to a tiny group, less than the population of one of our smaller towns.
>
> *Professor Clay has also shown that the distribution of property appears to be more uneven than in any other country for which we can make a reliable estimate of its distribution.*—*P. 243.*

In other words, despite the imposition of heavier taxation in Great Britain than in any other country in order to effect a re-distribution of wealth and to prevent inequality in the distribution of new wealth in Great

Britain, the inequality in the distribution of property and the inequality in the distribution of the new wealth annually created is more marked in Great Britain than in any other country under the capitalist system. Could there be more decisive proof of the ineffectiveness of heavy taxation, under the capitalist system, to bring about an equitable distribution of the new wealth annually produced or of the fixed capital in a country? Nevertheless, the Liberal Party of Great Britain recommend the masses of the people of Great Britain to trust to heavy taxation of the rich, under the capitalist system, for rectifying what the Liberal Party calls "mal-distribution" of property.

The point at which uneven distribution becomes mal-distribution must be largely a matter of opinion. We agree with the Socialists in thinking that a distribution so uneven as is at present found is mal-distribution.—"*Britain's Industrial Future*," *P. 243.*

Taxation under the capitalist system can never bring about either a re-distribution of property or an equitable distribution of the new wealth annually produced. That truth will be brought to light in another work by the present writer, *The Mirage of Modern Capitalism.* Under the capitalist system there can be no equitable distribution of new wealth and no re-distribution of existing property through the operation of economic forces, and the whole conception of a nation of capitalists under the capitalist system is a mirage, a deception and a fraud.

The Socialist Party in Great Britain has undertaken, in the event of being returned to political power at the General Election in 1929, to introduce heavy taxation of the rich and thereby improve the condition of the masses of the people and bring about a new re-distribution of income and of property. The Socialists would effect nothing of the kind, for, under the capitalist system, the capitalists have the power—as shown by the results of the taxation of the capitalists in Great Britain—to negative the effects of heavy taxation by transferring the taxes imposed upon the capitalists to the backs of the masses of the people.

The socialist proposal for a Capital Levy is based upon a fundamental misconception of the nature of capital. The Capital Levy of the Socialists of Great Britain is intended to be a substitute for a revolutionary re-distribution of property, such as was effected in France by the Great Revolution of 1793 or in Russia by the Bolshevist Revolution in 1917. The Capital Levy of the Socialists of Great Britain is not a Capital Levy but a Money Levy, and the capitalist economists and financiers have been able quite easily and conclusively to show that the only effect of the introduction of the Money Levy, miscalled Capital Levy, would be great monetary confusion.

A Capital Levy can be effected only by a direct change in the ownership of the mines, mills, factories, distilleries, railways, tramways, motor bus services, newspapers, theatres, houses, the land and the other fixed property in Great Britain——not by the payment of enormous sums of money into the Public Exchequer. The Capital Levy of the Socialists of Great Britain is a financial chimera and an economic delusion,——arising out of a complete failure to understand what constitutes the capital wealth of Great Britain.

There is no half-way house between Capitalism and Socialism, and the machinery of the capitalist state can never be the machinery of the socialist state. If the machinery of the capitalist state were sound, there would be no need to place it in the hands of the Socialists. The machinery of the capitalist state can never, even under socialist control, produce any other results than it has hitherto produced. The Socialists will only compromise Socialism by attempting to adapt the capitalist machine to socialist purposes. The Socialists will not only burn their fingers but cut their hands as well. An analysis of the socialist programme in a socialist state does not come within the scope of this work. The programme of the Socialists might be practicable in a socialist state. In a capitalist state the socialist programme is a fool's paradise.

CHAPTER XXX

THE GOVERNING CONDITION OF PRODUCTION

The Fundamentally False Basis of the Capitalist System

THE capitalist system—as proved by the statistics of the distribution of income in every industrial country in Europe and in the United States of America—has conspicuously failed to ensure either a wide distribution of the income or of the capital wealth of a country.

In Great Britain, as already shown, the inequality in the distribution of income is more marked than in any other country in the world. In a paper that Professor Henry Clay read before the Manchester Statistical Society on February 18, 1925, he showed the extent of the inequality in the distribution of fixed capital and of income in Great Britain. He said:

> Capital in this country is much more concentrated than income, and much more concentrated than it is in any other country. . . .
>
> If I were a capitalist, I should feel a little insecure about my capital, since a capital levy on all estates over £1,000 would leave 95 per cent. of the electorate untouched. I must not, however, be understood as advocating such a levy. I had no contemporary problems of party politics in mind when I selected this investigation for my presidential address to you; my sole purpose was to discover how far in this country we had forgotten the principle that Bacon expressed in the phrase: "Prosperity is like "muck; it is good only if it be spread."
>
> My figures suggest that we have completely forgotten that principle.—*Transactions of the Manchester Statistical Society, Sessions 1924–25, 1925–26, Pp. 77–78.*

Despite the progress made in the processes of production of goods during the nineteenth century, as a result of scientific discoveries and inventions, comparatively little improvement has been effected in the condition of the masses of the people in the industrial countries of Europe and of the United States of America.

In Great Britain, the first country to be industrialized and the home of the modern capitalist system, as evidenced not only by the amount of unemployment and the extent of pauperism but also by the standard of living of the wage-earning classes in employment, the condition of the people is deplorable in the extreme.

Sir Josiah Stamp has shown that during the nineteenth century the real wages of the workers were on the average quadrupled.—" *Britain's Industrial Future*," *P. 183*.

The standard of living of the masses of the people in Great Britain before the Battle of Waterloo was so low that it offers absolutely no standard at all for comparison, especially in view of the amazing scientific progress achieved during the past hundred years. The productive power of labour is a hundred times greater than it was at the beginning of the nineteenth century, and if " the "real wages of the workers " increased during the nineteenth century by only four times, there can be no hope whatever of the abolition of poverty under the capitalist system.

The most stubborn apologist of the capitalist system can not deny that, whatever might be the extent of the improvement in the condition of the masses of the people in the industrial countries of Europe during the past hundred years, the improvement effected does not bear even the most distant comparison with the enormous advance in the processes of production of food, clothes, shoes and all the other necessaries of life.

The Liberal Industrial Report, published in 1928, contains the following admission based upon the calculations of Professor Arthur E. Bowley and Sir Josiah Stamp:

It must be counted a poor achievement that after fifteen years of startling scientific advance we have scarcely maintained the real income per head of 1911.—" *Britain's Industrial Future*," *P. 14*.

The Colwyn Committee reported:

> The Committee conclude that on the average the real level of weekly full-time wages at the end of 1924 was about the same as before the war.

Of the real wages of the working classes before the World War of 1914–18, Mr. Hartley Withers wrote in his defence of the capitalist system:

> One of the most hopeful signs of the soundness of present public feeling, in spite of hysterical symptoms on the surface, is the general recognition that hitherto—before the war—the wages of labour were on the whole inadequate and that there can and should be no return to the pre-war level.—"*The Case for Capitalism*," *P. 49.*

Now, the most startling fact is that the pre-war standard of living to which the wage-earning classes of Great Britain have been forced back represents *a lower standard of living than that which existed forty years ago.*

Professor Pigou records:

> *The rate of real wages actually declined* between the later nineties and the outbreak of the Great War [1914–18].—"*Essays in Applied Economics*," *P. 70.*

If, as proved by the Colwyn Committee, the real wage in 1924 was the same as the real wage just before the World War of 1914–18, and if, as shown by Professor Pigou, the real wage in 1914 was less than the real wage twenty years before, the real wage today is less than it was between thirty and forty years before! During the past thirty or forty years the development of electricity and of the internal combustion engine, innumerable inventions and advances in the organization and in the methods of agricultural and industrial production have added incalculably to the productive capacity of every country in the world. Nevertheless, the masses of the people in Great Britain today are no better off than they were in the last decade of the nineteenth century.

The economists and other apologists of the capitalist system pretend that in the United States of America income is distributed upon a fairly equitable basis. Statistics that disprove that claim have been given in a previous chapter, but it might be useful to give a re-statement of the truth about the distribution of income in the United States of America.

In the highly prosperous year 1920, the average of the annual wages and salaries for all industries was only \$1,367. Even in building and construction trades, in transportation, in factories, in commerce, and in finance, the average in no group exceeded \$1,645.

In the following year, average pay of workers in all industries fell to \$1,121.

Nearly everybody knows just about how much, or rather how little can be bought with such incomes.

What, then, shall we say of the wages in domestic and personal services, which even in 1920, on the crest of the wave, and with board and room included, did not reach \$1,400 a year?

And how can we expect farmers to be contented, when the average annual wage of farm workers appears to have been \$486 in depression, and only \$582 in prosperity?

All our wage figures, moreover, tell only half the story. The other half is that comparatively few workers have any assurance that they will long be able to earn as much as they are now earning.

Further statistics are unnecessary. Wage-earners know from daily experience, and without elaborate statistics of any kind, what the progress of science has brought to them in standards of living and in security of the job.

It is true that if Benjamin Franklin could see his country now, he would be amazed to find everybody enjoying electric lights, telephones, automobiles, radio sets, the Vitaphone, not to mention the countless offerings of the five-and-ten cent. stores, which were unknown in his day.

But if he got close to the hearts of the people, as was his wont, he would be equally amazed to find that, in spite of the achievements of applied science, the great majority of the workers face the future with anxiety, uncertain as to employment and unprepared for sickness or old-age.—"*Business without a Buyer*," *Pp. 11–12.*

The capitalist system does not pretend to ensure the equitable distribution of production among the masses of the people. Messrs. Foster and Catchings of the Pollak Foundation for Economic Research in the United States of America conducted a very extensive inquiry into the periodic breakdowns of production under the capitalist system and the failure of the capitalist system to maintain production at any time at full capacity both in the United States of America and in the rest of the world. Messrs. Foster and Catchings explained the basis upon which their inquiry was conducted as follows:

> We have nothing to say here about the relative shares of individuals in the products of industry, not because we do not keenly desire a more equitable distribution of income, for we do; but because we believe that a better distribution of income will be more easily attained as soon as a way has been found of making the totality of income sufficient.—"*Business without a Buyer*," P. 22.

The capitalists and the economists are never tired of asserting that they have a passionate desire to promote "a more equitable distribution of income," but that is the one economic problem that they are most unwilling to face. Now, "a more equitable distribution of "income" is either an economic necessity or it is not. If it is not an economic necessity, it should never be mentioned in economic literature. If "a more equitable "distribution of income" is an economic necessity, and an equitable distribution of income is not effected under the capitalist system, the capitalist system stands condemned as utterly unsuited to the promotion of the economic welfare of mankind. At any rate, "a more "equitable distribution of income" should be the first problem to be attacked. That, however, is exactly the problem that the capitalists and their apologists, the economists and the politicians, are most reluctant to attack——until the Greek Kalends.

The elasticity of mental conceptions is nowhere more vividly disclosed than in economic literature. Messrs. Foster and Catchings, who are so contemptuous of the economic importance of "a more equitable distribution of "income," present their analysis of the economic problem as follows:

> The gist of the matter is this: Since underconsumption is the chief cause of our troubles, *adequate consumer income* is the chief remedy.—"*Business without a Buyer*," P. 20.

Messrs. Foster and Catchings have stated " the gist of " the matter " even more clearly in *Profits*. Referring to Mr. Herbert Hoover's statement that the export of capital from the United States of America is inevitable, Messrs. Foster and Catchings write:

> *The complacency with which this theory is accepted is amazing*, for it amounts to an admission of our main contention concerning the inherent flaw in the established economic system. It is, in effect, an indictment of *the prevailing methods of distributing the products of industry.*—" *Profits*," *P. 406.*

If " adequate consumer income is the chief remedy," how can it be that " a more equitable distribution of " income " is of no importance at all or only of very subordinate importance?

The contradictions of capitalist economic doctrine are so embedded in jargon that they generally escape detection.

Sir Josiah Stamp writes:

> More material welfare is coming to us all in the long run by a combined effort to produce the most, in the best way, than from a meticulous concern for the problem of " distribution."—*Foreword to " The Road to Prosperity."*

That is nonsense concealed in jargon.

To quote Mr. Henry Ford's words again:

> The only reason for growing crops, for mining, or for manufacturing, is that people may eat, keep warm, have clothing to wear, and articles to use. There is no other possible reason.—" *My Life and Work*," *P. 132.*

In plain, straightforward English, Sir Josiah Stamp's statement would read as follows:

> Each of us is going to have more food to eat, more coal to keep us warm and more clothes to wear if we all combine to grow more crops, mine more coal and manufacture more cloth without troubling ourselves at all whether the food, the coal and the cloth go in larger quantities to some (even in excess of their consuming capacity) in smaller quantities to others (even below the minimum of " a human needs " standard of living) or do not reach the rest of us at all—in fact, whether the food, the coal and the cloth are thrown into a fire or sunk in the sea.

The only reason why, under the capitalist system, " the problem of ' distribution ' " can be treated with the contemptuous scorn, of which Sir Josiah Stamp makes no secret, is that, under the capitalist system, the production of food, coal or cloth consumable by the workers can be artificially repressed and the resources of Nature and the labour of the masses of mankind diverted to the production, accumulation and preservation of unnecessary fixed capital either at home or abroad.

From the standpoint of the capitalist class in Great Britain it is of no importance whatever where the production of Great Britain goes—so long as it does not disappear into the stomachs, the hearths and the homes of the workers. Sir Josiah Stamp and his fellow economists and fellow capitalists are glad to see goods produced in Great Britain go on credit to Australia or to the Argentine, to Germany or to Greece, to India or to Iceland, to New Zealand or to Nigeria. If, however, the goods produced in Great Britain are consumed in Great Britain (including the derelict areas of Durham county and South Wales) or give rise to imports of goods that are consumed in Great Britain (including the derelict areas of Durham county and South Wales)—thereby reducing the balance of trade or, to use the unctuous words of the Liberal Industrial Report (*Britain's Industrial Future, P. 246*), " the " fresh capital needed for the replenishment of our foreign " investments "—the hearts of Sir Josiah Stamp and his fellow economists and fellow capitalists would be filled with unspeakable sorrow.

Wherever outside Great Britain goods produced in Great Britain might be dumped on credit, the goods constitute " capital " and however insolvent or improvident the countries that receive the goods might be and to whatever purpose the goods might be put—and those purposes could not be more noble than the salvation of the populations of the derelict areas of Great Britain—the calculations of compound interest made by ledger clerks in London would constitute " income."

The goods exported on credit from Great Britain to other countries add to the " capital wealth " of Great

Britain, and the calculations of compound interest made by ledger clerks in London constitute additions to "the "national income." Periodically, Sir Josiah Stamp and his fellow statisticians publish elaborate calculations of the "capital wealth" and "the national income" of Great Britain. Into those calculations of the total capital wealth of Great Britain (on the face of the entire earth) the exports of goods on credit——goods that were consumed or were wasted decades ago in Australia or in the Argentine——are included, and the estimates of "the "national income" include the calculations of compound interest made by ledger clerks in London on the goods that were consumed or wasted decades before in Australia or in the Argentine.

The total amount of "the national income" so calculated is, then, divided by the number of heads in Great Britain, and the income per head is returned at so many pounds sterling. A comparison is next made with the income per head of the population a hundred years before (when calculations of compound interest upon "investments of capital in foreign lands" formed no part of the labours of ledger clerks in London), and the good people of Great Britain are invited to contemplate (with feelings of respectful admiration for the statistician and the capitalist system) the "remarkable expansion of "the national income and the slow, but steady improve-"ment in the standard of living of the masses of the people, "as shown by the increase in the income per head of the "population."

That is the kind of income to which Sir George Paish refers in the following passage:

It also seems to be forgotten that the immense increase in income in the long period prior to the war came from a policy of great courage. . . .

In a single century the income of the British people, and the income of the entire world increased nearly sixfold.

The British people in their effort to expand their income did all in their power to remove every obstacle that stood in their way. They discovered that they could not sell their goods abroad without giving credit, and they consequently created a system which enabled them to pay cash for what they bought, and to grant credit facilities for what they sold, *thereby removing one of the main obstacles to the process of exchange and the expansion of income.*—"*The Road to Prosperity*," *Pp. 17–18.*

Sir Arthur Quiller-Couch, in the King Edward VII lecture he delivered at Cambridge in 1928, quoted an article by the musical critic of a London daily newspaper and put the question :—" Will you not agree with me " that here is no writing, here is no prose, here is not even " English, but merely a flux of words to the pen ? " (*Journal of the Institute of Journalists*, November, 1928, P. 232.) The reader can put the same question to himself or herself after reading the following from the pen of Sir George Paish :

The provision of credit in the form of investment capital for the construction of railways and other labour-saving appliances, where they can be profitably introduced, would at once cause a great expansion of demand for more manufactured goods, and the increased productive power which the new machinery would create would subsequently enable the increased income, which such demand would create, to be maintained and steadily to increase. —"*The Road to Prosperity*," *P. 125.*

The capital produced in a country comes out of the total production of the country. It is necessary to do only a very simple sum in arithmetic to realize that the quantity of production that is available for the improvement of the condition of the masses of the people depends upon how much is left over after the production converted into capital has been taken out.

The " problem of ' distribution ' " is, thus, primarily and fundamentally, a problem of deciding what portion of the production of a country goes into the formation of durable wealth or fixed capital and what portion goes into the formation of goods of rapid consumption—food, clothes and the other necessaries of life and the comforts of life, upon which the happiness of the masses of the people depends. Wages and dividends are the instruments of the division of production between fixed capital or durable wealth and " goods of rapid consumption."

There can be no question of the need of capital. The issue is not whether a community needs capital or not, but exactly how much capital it needs. No one believes more firmly in the value of capital—in the sense of productive plant and machinery—than Mr. Henry Ford, the world's wealthiest capitalist, but he realizes that machines have cost raw materials and human labour to produce and must be made to produce to the maximum. He writes:

> The purpose of a factory is to produce, and it ill serves the community in general unless it does produce to the utmost of its capacity.—" *My Life and Work*," *P. 107.*
>
> Our machines are placed very close together—every foot of floor space in the factory carries, of course, the same overhead charge. The consumer must pay the extra overhead and the extra transportation involved in having machines even six inches farther apart than they have to be.—" *My Life and Work*," *P. 113.*
>
> As a part of low-cost production—and only low-cost production can pay high wages—one must have a big investment in machinery and power plants. *Expensive tools can not remain idle.* They ought to work twenty-four hours a day, but here the human element comes in, for although many men like to work all night and have part of their day free, they do not work so well, and hence it is not economical, or at least that is our experience. But a modern factory has to work more than eight hours a day. It can not be idle two-thirds of the time, else it will be costly.—" *Five Days' Work with Six Days' Pay*," *an article in* " *The World's Work* " *in 1927.*

Now, under the capitalist system, there has arisen a great excess of fixed capital or durable wealth in the form of producing plants. At no time are the whole of the producing plants of the world (even upon the basis of a single shift) running to more than fifty per cent. of capacity—to say nothing of redundant railways and redundant public works of all kinds all over the world.

In the industrial countries of Europe, admittedly, the limit of fixed capital needed has been reached, for, upon no other supposition can the export of capital arise or be justified. If that is so—and it is so—the time has surely come to cease the accumulation of fixed capital and produce "goods of rapid consumption" or exchange whatever goods are produced only for "goods of rapid "consumption."

Under the capitalist system, the control of production (in excess of the production that provides a minimum subsistence for the masses of mankind) is in the hands of a small class of capitalists. The small class of capitalists, gorged with every form of production, can make no use of the production they control except the conversion of that production into needless fixed capital.

King Tutankhamen of Egypt turned the labour of men to the production of gold, because the production of gold was the only purpose to which he could apply the labour of men, to whom the production of Egypt had already given the minimum of subsistence under the capitalist system. The capitalists of Great Britain and the other industrial countries of Europe, having allowed a minimum of subsistence to the masses of the people, are able to put the labour of the millions of the unemployed to no other purpose than the accumulation of unnecessary fixed capital—an unwanted tunnel under the English Channel, railways, roads, canals, telephones. That also is the predicament of the capitalists of the United States of America.

The Labour leaders of Great Britain (who support the Channel Tunnel scheme, because it would "create "employment") and the Liberal Party of Great Britain, which has produced a programme of unwanted public utilities for creating work for the unemployed, would have been welcome members of an Opposition in a Parliament in ancient Egypt. Mr. Lloyd George would have been a wholly admirable and much beloved Prime Minister of King Tutankhamen of Egypt.

The creation of opportunities for work is the very antithesis of the proper objective of an economic system. The objective of the economic organization of society must be the minimum amount of work. Work is not a desirable object. It is an unfortunate—a most unfortunate—necessity with the saving grace of a useful discipline. There never will be escape from work, and there is no need to dread a possible shortage of work in the world. There will be enough work—too much work—for everybody in the world till the end of time.

Distribution is the governing condition of production. There can not be full production unless there is full distribution. Under the capitalist system full production is sought without attention to distribution. "The "problem of 'distribution'" is the one problem that the capitalists will not attack, because full distribution is the very negation of the capitalist system. The capitalist system and full distribution are mutually destructive. Secure full distribution, and the capitalist system would cease to exist.

Full production is dependent, not upon the accumulation of fixed capital, but upon equitable distribution. Equitable distribution should be the sole aim and purpose of all production. There is no full production in the industrial countries of Europe, because there is no fair distribution of production in the industrial countries of Europe. The barrier to full production under the capitalist system is the inequality in the distribution of property and of new wealth. If full production is to be maintained under any economic system, the production must go into the homes of the masses of the people. Production can go nowhere else. Production need go nowhere else. Production is wanted nowhere else. The homes of the masses of the people are the only engines of consumption, the only markets for goods, the only vents for production. The only production that should be grown, mined or manufactured is the production that can serve the homes of the masses of the people.

The only purpose of the economic organization of a community is the production and the equitable distribution among the members of the community of the goods that the members of the community need or desire. The only work that the members of the community need to do is the work necessary for producing those goods. No other work is necessary. Naturally, in order to maintain the production of "goods of rapid consumption," durable wealth or fixed capital must be produced, but the amount of fixed capital so accumulated must not exceed the absolute necessities of the community.

The accumulation of unnecessary fixed capital under the capitalist system arises from the existing inequality in the distribution of property and the consequential inequality in the distribution of new wealth. The super-rich class are wholly unable to use the whole of their vast incomes and are, therefore, compelled annually to invest the major portion of their incomes in the accumulation of unnecessary fixed capital. In other words, the sole outlet for the productive capacity of a community, under the capitalist system, is the production of unnecessary fixed capital. If, therefore, inequality in the ownership of property and inequality in incomes is to be averted, the limitation of the property owned by the individual and of the income of the individual is indispensable. The limitation of the income of the individual will, firstly, avert the diversion of the productive capacity of a community into the production of unnecessary fixed capital, and, secondly, compel the wider distribution of production, thereby bringing about equality in the distribution of income. Unless there is a limitation upon the amount of property owned and the amount of income received by an individual, there never can be the equitable distribution of either property or income.

The basis of the economic organization of human society must, therefore, be,

Not the Communist principle,

> To each, according to his or her needs,

Nor the Socialist principle,

> To each, according to his or her labour,

Nor the Capitalist principle,

> To each, according to his or her power of acquisition,

But the Individualist principle,

> To each only to the limit of his or her capacity of use or consumption.

An economic system that ensures to every member of the society individual freedom (so far as it can be exercised by every member without the infringement of the liberty of other members of the society), permits the accumulation of personal property (to the full limit to which personal property can serve the interests of each member of the society and the interests of the society as a whole) and affords scope to private enterprise (to the full extent of the powers of each member of the society without limiting the scope for private enterprise of other members of the society) would be an economic system that would reconcile and combine the interests of the individual with the interests of the society as a whole.

CHAPTER XXXI

THE ECONOMIC RE-ORGANIZATION OF HUMAN SOCIETY

The Means of Effecting the Equitable Distribution of Wealth

In an individualist society the liberty of the individual is necessarily circumstanced by the liberty of the other individuals of the society. The unfettered liberty of the individual in an individualist society can be secured only by the sacrifice of the liberty of other individuals of the society. Therefore, respect for the liberty of others is the natural, fundamental and governing condition of the liberty of the individual in an individualist society——or in a communist or socialist society.

The re-organization of human society upon the basis of the Individualist principle,

> To each only to the limit of his or her capacity of use or consumption,

involves and implies the limitation of the income of the individual both from fixed capital and from personal services or labour to the maximum limit of the practicable expenditure of the individual.

The maximum limit of the practicable expenditure of the individual must, at all times, be a purely arbitrary limit. The first condition of consumption is production. The equitable satisfaction of the wants of all the members of a community must necessarily be dependent upon the total amount of the production of the community. In no human institutions are there absolute limits. Economic conditions and factors are relative. No economy can be sound unless it is founded upon the recognition of the Relativity of Economic Factors.

How the plan for the re-organization of human society

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How the plan for the re-organization of human society upon the basis of the individualist principle enunciated in this work could be put into operation in Great Britain will now be outlined.

In order to attain the maximum equality of distribution of property and of income as the foundation of the economic re-organization of human society, it would be indispensable to reduce the maximum limit of income to a very low level, raising the level year by year until the production of the community justifies a high maximum limit. There are decisive practical objections to the disturbance that would be caused by the sudden and drastic limitation of the maximum limit of income. The ultimate end will best be attained by reducing the income of the individual to a reasonable maximum and allowing the expansion of production (that would at once arise, as a result of that limitation) to operate at the other end of the economy. Experience alone can show what should be the maximum limit of the income of the individual in the community.

An income of £10,000——that is an income twice as large as the salary of the Prime Minister of Great Britain ——must, under the existing conditions of society and upon the basis of the present price level, meet all the reasonable requirements of an individual. Most people will be surprised to learn that in Great Britain, as shown by the returns of income tax and of super-tax for the financial year, 1926–27, less than 10,000 persons had an income of over £10,000 liable to tax. Super-tax is payable on all incomes over £2,000.

The details are important. The exact number of persons with a taxable income of over £10,000 in 1926–27 was 9,353. Of those 9,353 persons 4,541 had an income of less than £15,000. The total amount of the incomes of those 4,541 persons was £54,877,009.

There were only 4,812 persons who had an income in excess of £15,000. The total amount of the incomes of the 4,812 persons who each had an income of over £15,000 was £158 millions.

Thus, the limitation of the income of an individual in Great Britain to £10,000 would affect less than ten thousand persons and would make a marked numerical difference only to five thousand persons.

The income from income-producing property is generally assessed at five per cent., although dividends paid by industrial joint-stock companies show an average of over ten per cent. If, therefore, the limit of the individual income is fixed at £10,000, every individual who has a higher income would be compelled to dispose of a part of his income-producing property—lands, houses, shares in joint-stock companies, government securities, investments in oversea securities.

If property is assessed—it is generally so assessed—to bring in a return of five per cent., every individual with an income in excess of £10,000 would be compelled to reduce his income-bearing property to £200,000. The income-tax authorities assess the value of all income-bearing property. A margin of ten per cent. in the assessed value of the property might be conceded to the individual as a safeguard against fluctuations in value. As every penny of income over £10,000 would be annexed by the State, no injury would be done to the interests of the community as a whole.

There must necessarily be a limit to the amount of the unproductive or non-income-bearing property that the individual in an individualist society holds. A high limit is permissible. The maximum amount of non-income-bearing property allowed to the individual should be ten per cent. of the maximum limit of the income-bearing property. That would be £20,000, if the limit of income-bearing property were £200,000.

The individuals who would come under the law for the limitation of property and income would be found to possess non-income-producing property in excess of £20,000 per head. The excess of all such property—jewellery, pictures, statues, castles, parks, forests, woods, hunting grounds, should become the property of the community. A trust would have to be established for taking charge of all the property so surrendered and preparing and submitting to Parliament plans for the disposal of the property.

In the disposal of the income-bearing property there is no reason why the present owners should not be allowed to use their personal freedom and discretion—exactly as they would when making a will. The object being, however, to secure the widest possible distribution of property, individual bequests should be strictly limited to £1,000 in property value and £50 in income value. It should also be ordained that no individual assessed to super-tax should accept a transfer of property from an individual whose income came under the limitation of property and income law.

Certain precautionary measures would be needed to prevent unpatriotic action by the persons, whose property and income would come under limitation. Because of the fact that they number less than 10,000 persons and because of the fact that they hold large amounts of property in Great Britain preventive action would be very simple and immediately successful. The chief danger would be an attempt to transfer securities to individuals outside the country. The first preventive measure should be a law, compelling all those who had been assessed to super-tax in the previous year on an income of over £10,000 to obtain the consent of the income-tax authorities to all transfers of property they might make. The second measure would be the publication of the names of all individuals who had, in the previous financial year, paid taxation on an income in excess of £10,000.

The property that would come under distribution would include land and government securities. The abolition of the law of primogeniture—a thoroughly capitalist law—is indispensable. Minors should not possess the right to own more than £1,000 worth of income-bearing property and £100 worth of non-income-bearing property while both parents are living. Married women should have the same rights of property and income as men and unmarried women.

The government should have the first claim upon the property of all individuals coming under the law for the limitation of property and of income to the extent to which the property of the individual consists of government stock. Every individual would be obliged to surrender government securities for cancellation until his or her property was reduced to the maximum limit of £200,000.

By the transfer of shares—transfers of shares take place daily in the stock markets—no disturbance would be caused to industry, trade, banking or finance. No difference is made to the conduct of an industrial, commercial or banking company by the substitution of one name for another in the share ledger of the company.

Naturally, the ten thousand individuals who would come under the law for the limitation of property and of income would each lose the controlling interest in all but one, two or three joint-stock companies. That would be an immense advantage to the industrial, commercial, banking and financial life of Great Britain. The ten thousand persons, whose individual incomes exceed £10,000, are a deadweight upon industry, commerce and banking in Great Britain. They have not the time to give to so many large enterprises, which are conducted for them by abler individuals, whose own liberty of action is, under the existing conditions, circumscribed by the necessity of pandering to the vanity and conscious incompetence of the men who hold the controlling interests.

The decisive fact, however, is that under the plan outlined in this chapter, the services of no man whose income exceeds £10,000 need be lost to any productive or other enterprise in Great Britain. If those men are really vital to the conduct of the economic life of Great Britain, there is no reason why they should not continue to hold their conspicuous positions of supposed usefulness after they have lost the controlling interests in the organizations that they now dominate. The Rt. Hon. Reginald McKenna is not Chairman of the Midland Bank, the largest private bank in the whole world, because the controlling interest is in his hands.

Even under the limitation of individual property and of income the power of an individual to retain the controlling interest of a single production organization—and it is only to a single enterprise that any man can successfully devote himself—would be enormous. There are not many organizations with a larger capital than £300,000. With at least £195,000 available for investment in income-giving property, an individual could hold the controlling interest in any joint-stock company the capital of which did not exceed £390,000.

The Prime Minister of Great Britain, who is, in the judgment of his countrymen and countrywomen, the ablest statesman to conduct the affairs of the country and upon whose shoulders rest heavier responsibilities than the responsibilities upon the shoulders of any other citizen, has no more political power at a General Election than his valet. He is Prime Minister of Great Britain, not by reason of his voting power at a General Election, but by reason of the confidence that his fellow-citizens have in his abilities and character.

Great Britain, as a democracy, is a mighty joint-stock company. The citizens of Great Britain are the shareholders. The General Elections are the annual meetings of the shareholders of the joint-stock company of Great Britain. Parliament is the Board of Directors. The Cabinet is the Chairman of the Board of Directors. The economic welfare of the people of Great Britain is more largely dependent upon the proper conduct of the affairs of the country as a whole by the Cabinet and Parliament than upon the proper conduct of the affairs of any joint-stock company in the country. It would be absurd to pretend that joint-stock companies can not be organized upon the basis upon which the government of the whole country is organized and will continue to remain.

The advantages of the concentration of property and of income are confined to the small class who hold the property and derive the income. The disadvantages fall upon the whole of the rest of the community, because the concentration of property in the hands of a small class bars the expansion of production. The advantages that the small class of capitalists now possess under the capitalist system are the advantages of political despotism. The limitation of property and of income is the natural and necessary corollary to the limitation of the political power of the king and of the nobles. Without the limitation of property and of income, political democracy is a mockery.

The joint-stock companies act must be amended. Joint-stock companies should be forbidden to issue other than ordinary shares. Every share ought to carry the same voting rights. No joint-stock company should be allowed to borrow money by the issue of any form of stock or bonds. The value of a share ought to be fixed at one denomination, say, ten shillings, and no joint-stock company should be allowed to call up the last shilling unless it has already gone into the hands of a receiver. The capitalization of joint-stock companies will have to be put upon a uniform basis, and very necessary improvements in the auditing of accounts introduced.

By a special supplementary law all holders of oversea securities should be compelled to surrender to the government all oversea securities to the extent needed to limit the total income of all holders of oversea securities from all sources to £1,200. The object of the law would be to expropriate oversea securities, so that no person might be left in possession of oversea securities alone providing an income in excess of £1,200.

The oversea securities are estimated annually to produce a money income of over £200 millions. The value of the securities that would be surrendered would be not less than £3,000 millions. Transfers of oversea securities, without the consent of the tax authorities, ought to be rendered illegal as part of the preliminary precautionary measures to be enforced.

The oversea securities surrendered to the government would provide an income of at least £150 millions. For the administration of the surrendered securities a special trust should be established. The trust should be charged with the responsibility of distributing the income from the surrendered securities equitably among the poorest sections of the population. The trust should set apart £104 millions of oversea money income to be distributed by the issue of non-transferable Annual Benefit Bonds to two million adult persons. The holder would receive one pound per week from the trust for not less than a year at a time. The surplus income of the trust would be devoted to the relief of poverty and the rehabilitation of the impoverished masses of the people in the many ways open to public effort.

The distribution of the money income from the oversea securities among the masses of the people (the poorest among them) by means of the Annual Benefit Bonds would give the masses of the people the power to buy the products of the debtor countries—foodstuffs and the raw materials that go to the manufacture of the other necessaries of life. It is indispensable that the debtor countries should be given sufficient time to expand their production to meet the demand in Great Britain. Therefore, the trust should issue only 100,000 bonds per month, beginning with the populations of the derelict areas.

By the distribution of the money income from the investments of British capital in oversea lands among the masses of the people, the income from the investments of British capital in oversea lands would be converted, as during the World War of 1914–18, from a financial fiction into an economic reality. The expansion of production in the debtor countries would create a demand for labour and stimulate emigration to the debtor countries from Great Britain, while the condition of the masses of the people of Great Britain would be improved by the entry into the homes of the poorest of the poor of the produce of the debtor countries to the extent of that income, namely over £150 millions.

After, say, ten years, the securities should be sold by public auction in annual allotments spread over, a period of, say, ten years. If £1,000,000 of securities are sold daily, ten years would be required to sell the £3,000 millions of securities. The proceeds of the sale of the securities should be used to liquidate the National

Debt. If a balance remains, it should be devoted to a public purpose.

The re-distribution of money income in the country by the re-distribution of property would similarly give rise to an increased demand for goods produced in the country, because the present "frozen income" of the super-rich would be converted into real income. The wheels of the productive machine would at once be accelerated, creating fresh opportunities for employment. The limit to individual incomes and to individual possessions of non-income-producing property would cause the distribution of the profits of production among a vast multitude of shareholders who would set up an expanding demand for goods, providing still more employment. The purchasing power of the community would become its productive power, and the productive power of the community would become its purchasing power. There would be no scope for "frozen incomes." The limitation of income would, moreover, force the raising of wages, and the increased production would reduce prices.

The limitation of individual income is essential to the efficiency of taxation. Under the capitalist system the taxation of the capitalist class is a fiction and a deception. Under the capitalist system, all taxation imposed upon the capitalist class is transferred to the consumer. The higher the percentage of the taxation imposed upon the incomes of the capitalist class, the larger become the incomes of the capitalist class. The net result is that the balance of the net income of the individual capitalist is always the same. The failure of the taxation of the capitalist class in Great Britain, as shown in this work, is admitted. If taxation is to be an economic reality, limitation of individual incomes is indispensable.

An economic system organized upon the basis of the principle, enunciated in this work,

> To each only to the limit of his or her capacity of use or consumption,

would be an economic system under which all the evils of the capitalist system would be eliminated. Such an economic system would be an economic system based upon equity, reality and the governing conditions of human life on this earth. It is only such an economic system that could ensure the perpetuation of the whole human race in conditions of Prosperity, Peace and Goodwill.

THE BOOK ENDS