

THE WORLD ECONOMIC DEPRESSION

A PLEA FOR CO-OPERATION

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TO THE MEMORY
OF
M ALBERT THOMAS
THE LIFE-LONG ADVOCATE AND EXPONENT OF
CO-OPERATION

PREFACE

The remedial potentialities of Co-operation (in its various forms) as regards the present Economic Depression form the main thesis of this little book. It can be shown that an important corrective of the existing maladjustments of production and demand is the development and proper co-ordination of Producers' and Consumers' co-operation. But co-operation has other forms, and works on other planes besides the national one. Besides the field of co-operation between individuals there is the region of International Co-operation. It is through International Co-operation alone that we can hopefully attempt to remove many other maladjustments which are important contributory factors of the present depression. On this side there is a wide range of problems and policies to discuss. There are for examples problems of international management of currency and of the co-operation of Central Banks. Not less important are the topics of economic disarmament, of commercial reciprocity and of international industrial agreements. Above all comes the question—how far can Co-operation help to prevent Capitalism from crumbling and dissolving? It is proposed to present in these pages brief accounts and analyses of these problems and potentialities.

No apology is required at the present day from a teacher of Economics for selecting as the subject of his first contribution to the studies of his new university the subject of the World Economic Crises. For obviously any one who attempts to offer something like a clear presentation of the causal and remedial aspects of the present unprecedented depression, and to analyse and appraise the numerous suggestions and theories advanced about it, is rendering a public service. Only by a great co-operative effort on the world scale can this depression be overcome, and the first phase of such co-operation must be the creation of clarity of thought upon the subject. We in India have been doing our "bit" in this direction, thus, in the year 1930 it was the Indian Delegation which had the privilege of moving the Resolution before the Assembly of the League of Nations which led to the authoritative inquiry into the course and phases of that Depression by Prof. Ohlin. Last year, too, the Indian Delegation intended to propose an extension of that inquiry and only the inexorable necessities of finance led to a temporary postponement of that idea.

But it is not only the League which should prosecute inquiries into that great and all-engrossing subject, of which the issue seems plainly to be whether the world is to continue its economic existence under the present system of capitalistic production or is going to transfer its allegiance to

some variety of Communism ~~are~~ if indeed next to it—the Universities seem to be the best institutions for discussing the subject. It is certainly worth suggesting that if the most distinguished holders of Economic chairs in different countries carried on propaganda for creating the right public attitude towards the subject, and discussed the remedial aspects thoroughly among themselves, an immense amount of good can be done. Those of us however who do not command that international status, can still make a useful contribution by helping in the popular discussion of the subject and in provoking thought. Such a review of the main opinions and proposals advanced on the subject is being offered here as a starting point for discussion, for in view of the growing literature on the subject even such a *coup d'oeil* might not be without some use. References have been given in the footnotes in order to induce and enable the reader to examine the ground for himself.

I wish to express my appreciation of the valuable assistance given by my colleague Mr M Venkatarangaya in seeing these pages through the press.

J C COYAJRE.

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THE WORLD ECONOMIC DEPRESSION

CHAPTER I

A CONSIDERATION OF THE CAUSES OF THE DEPRESSION

The point of view developed in the present study of the Depression is that of the convinced believer in the great potentialities of Co-operation. The central line of reasoning is that, while Co-operation was always necessary to the world, its development is now most vital and essential, in view of, and in step with the process of integration and solidarity of world economic interests. Alike in the field of national and of international economics the method of Co-operation must be developed if we are to avoid debates like the present one or, indeed to save capitalistic society itself. How close the solidarity of international economic relations has become and how rapidly it has developed, can be judged from the universal character of the present depression—as contrasted with even the worst of its predecessors. While one important and basic fact is that technical progress in its largest acceptation has gone ahead by leaps and bounds, the other essential factor is that as yet there is no regulator of this great dynamic movement—either on the side of production, or consumption, of distribution or exchange. Hence the breakdown of our world economy in all these aspects simultaneously. The main instrumentality for the adjustment of production to consumption, as well as for the adjustment of the supply of the medium of exchange to the demand for it is, it is submitted, Co-operation; that is we must have co-operation as between producers and consumers, amongst bankers and currency authorities and between states as regards commercial policy. It is in the absence of the development of this main adjusting and regulating factor that there have appeared so many and such serious economic maladjustments.

It is remarkable that amongst the various, excellent studies of the present depression which have appeared no comprehensive account of the remedial potentialities of Co-operation has been developed. In most of these studies of the World Crisis formal lists are given of the causes of the Depression as well as of the remedies. It has been forgotten that what was wanted besides the adoption of these quite useful lists of the remedial suggestions was the introduction of a new spirit and mentality in which the great economic problem of the world is to be approached. For Co-operation alone can fulfil the two-fold function—that of securing joint and common action (which is indeed very necessary) and also of supplying the great psychological stimulus which is the most necessary thing to combat the depression. True, we want a planned economy for the future, but not any sort of planned economy. Right before us lies the immediate problem to be solved but, behind it there is not only a conflict of methods but a conflict of ideals as well. It is when we take the point of view which Co-operation has established that we are able to distinguish between palliatives and local remedies, on the one hand, and real remedies of the general economic system on the other.

It is a narrow view of the principle of Co-operation which is content to assume that its range is limited by the activities of producers' and consumers' Co-operation or even by the inter-trading implied in the existence of these two aspects of the general principle. The function and potentialities of the Co-operative principle are indeed far wider. As has been well put by a writer on the subject "the ultimate aims of Co-operation are concerned as much with Social Economy as with commerce. It seeks to expand till it has transformed the whole of society to its own ideal economical and ethical form. In this social character the movement can admit no irreparable division in the interests of mankind nor any economic problem which co-operative principles and co-operative technique cannot solve"¹. It might have been added that Co-operation is at least as permeating a phenomenon as competition—the former re-

¹ Margaret Digby, "Producers and Consumers", p. 195.

presenting the complementary aspects of productive factors and persons, while the latter emphasises their relations as rivals. It is a mistake to consider competition as either the more important or permeating principle. A study of the evolutionary aspect of Institutional Economics would show that the rise and working of co-operative and competitive institutions have formed important and alternating aspects of Economic History. The last century or two have marked the high water-mark of competition. But we are now witnessing the harm done by an excess of that factor of Economic progress. We are at present being often reminded, for instance, that Natural Science has done her share for man and that now it is for the Economic Science to guide the national economy properly. Such statements only mean that the guidance of production by uncontrolled competitive influences has upset the economic equilibrium, and that it is time now to invoke Co-operation to improve matters and so to adjust Production and Distribution as to give us something like Maximum Satisfaction.

The principles and practice of Co-operation are indeed capable of immense development. The co-operative movement has, it is well known served as a stabilizing factor in the great economic troubles which have overtaken so many countries of the Continent. The system can impart an elasticity to national production and distribution which alone can do much in adjusting methods to great changes on the side of demand and supply. For an actual record and witness of the potentialities on this side, a reference might be made to the publication of the Carnegie endowment on the work of the Co-operative movement in Jugo-slavia, Roumania and North Italy. We learn there how Co-operation has been the only instrumentality which has been able to deal with marked success against such formidable factors as the breakdown of distributive systems, the upsetting of inter-national trade, rapid and fundamental changes in the institution of landed property and the spread of revolutionary and communistic ideas¹

¹ Cf D Coffey, "The Co-operative movement in Jugo-slavia, Roumania and North Italy during and after the War"

Economic theories are obviously best tried and tested under the pressure of inexorable circumstances and hard facts. Thus the small States of Europe which are hard pressed by the Depression and which must watch the shadow of Bolshevism stealing nearer to them, have been forced to realise the strong support which the adoption of co-operative principles and practice affords to our present system of economy. The history of the last decade has shown that we must not lean too much on the competitive principle. The same decade has taught mankind that Communism too has its great deficiencies. Had Karl Marx been alive to-day he would have rejoiced at the weakness shown by the capitalistic system but he would have been no less disappointed at the shortcomings of the great Bolshevist experiment. What mankind requires is a synthesis giving us the best of the two antagonistic systems. We want neither the thesis nor the antithesis. We desire the synthesis, which is to be found in Co-operation.

So far we have spoken of co-operation in the ordinary sense. But co-operation has before it another and a larger aspect and a bigger field of application. It is obvious that most of our present troubles are due to the unchecked development and pushing of "national" policies, and we can remedy them only by an adoption of International co-operation. Eminent economists have been studying the possibilities of co-operation, and, indeed, a literature is growing up on the topic of International Co-operation on the economic side before our eyes. Take a valuable work like Prof. Patterson's on "the World's Economic Dilemma". It deals mainly with "the series of economic influences that make for strain in the modern world" and "the reasons why there is so strong a tendency for them to act on national lines". The remedies prescribed by Prof. Patterson consist of international co-operation between states, of which the League of Nations is the symbol, as well as between bankers and business men.

As a result of the emphasis being placed on International Co-operation we have a broadening of Economic Science and Art and new developments in Normative Economics as well. We are freely discussing "World Economics"—not however in the spirit of the old

"Cosmopolitan" or competitive economics. Under that system the weakest was left to go to the wall without any compunction, but we now find that the economic troubles of any nation inevitably react on the rest. So also there is a tendency to be critical of the doctrines of the National School of Economics founded by List and his followers. In fact both on the political and on the economic side, the shortcomings of the national method of approach are clear. The point of view of International Co-operation is being developed as regards the control and utilization of raw materials, in the matter of foreign investment and loans as well as on topics like tariffs and cartels. Even a critic of the idea of World Economics shows its influence. Thus an eminent critic of that notion observes: "World prosperity seems more attainable if sought through the prosperity of its parts—nations, empires or continents—*properly co-ordinated in harmonious co-operation*, rather than by viewing the world prosperity as an antithesis to national prosperity." But it is scarcely just to emphasise the idea of such an antithesis—except perhaps as a caution for the future. Meanwhile we are well content with the idea of a "harmonious co-operation between nations," and many of the best works of the day on Economic science expound the methods and ways of such harmonious co-operation. Take for instance a monumental work like Keynes' "Treatise on Money," and compare it with the leading works on currency which were published before the War. When thus compared one of the most important features of the work is the International point of view—especially in the chapters dealing with "International management of money" and "the International Gold Standard." Take up another important work like Prof. Donaldson's on "International Economic Relations." That is avowedly a "treatise on World Economy," so is Elemer Hantos' work on the "Economic Mondiale." Prof. Patterson's excellent work has already been referred to. We thus find the economic science of the day laying increasing emphasis on the world point of view, and as a corollary its precepts are being based on the idea of International Co-operation on a scale and in a way unknown to the economists of pre-War days.

It is proposed to discuss the problem of the Depression both in

its causal and its remedial aspects, but in either case, in the interests of exposition, the problem has to be broken up into its various constituent elements. True, the factors of the problem are closely inter-related and it is difficult to unravel their separate effects. Nevertheless that difficulty pervades the whole sphere of economics, and the economist is always attempting the hard task of what Prof Carver calls "unscrambling eggs" with tolerable success, though of course the isolation of economic factors can never be quite complete. In any case, long period tendencies like that of relative overproduction which made their appearance some decades ago will have to be separated from more recent phenomena like those of abnormally higher rates of interest or maldistribution of gold. Monetary and banking causes too are in many respects autonomous, though they need not be given the unique and dominant position that sometimes has been assigned to them. Above all in any study of the subject, we have to take particular account of the true time perspective so far as possible and without losing sight of convenience and facility of treatment. With this object, in our study of the causal factors we may divide them into four main groups—the first dealing with maladjustment of production and of demand; the second consisting of difficulties on the monetary and banking side. Finally, we shall take up the question of tariff barriers and the problem of reparations. When, however, we approach the remedial programme, the order will be somewhat different, since their urgency of the measures required is an important consideration.

In the light of the antecedents and the course of the present great depression, the former "monistic" theories of the business cycle have little chance of surviving. If any formula of this type—emphasising some single cause—had any chance of success it was that formulated by Mr Keynes which attributed credit cycles to the failure of Savings and Investment to keep step, for that formula can through its implications rope in quite a number of factors. Nevertheless, even so, it cannot cover the whole range of factors which have led up to the great Depression. And when using such formulæ, we have to give their due to quite a large number of maladjustments in this connection, while at the same time the real im-

portance of the implied factors is unduly minimised by their being ultimately brought in as it were through the back door. Economists cannot but agree that whether we are suffering from the "long wave" or are in the throes of a Juglar cycle or the "forty-month cycle" or are afflicted by all three simultaneously, we must take full account of powerful contributory factors like high tariffs, reparations and currency policy.

This reminds us of Wagemann's remark that "most of the theories (of the business-cycle) maintained in these days are of a compound character, especially as many of them wander off into other strata of the economic system in search of the causes of the causes themselves" (*Economic Rhythm*, p 253). A similar view is expressed by W. C. Mitchell in his great work on "Business Cycles," to the effect that "many writers also show how the changes produced by their chosen causes affect other processes, and in so doing, they are likely to find use for the work of men whose distribution of emphasis differs from their own" (p 12). The fact is that Economics is gradually becoming fully conscious of the real complexity and close inter-relations of economic phenomena. To take but a single example—the Quantity theory, as recently formulated, takes account of a very large number of factors which were quite neglected in the earlier formulations. The same tendency towards a greater realization of the inter-relation of the relevant factors is manifest in most other developments of theory and in this way, not only in the theory of the business-cycle but in other portions of economics.

At the very threshold of our subject, we are in the regions of volcanic controversy. On the one side, are eminent authorities like Mr Snyder, Sir H Strakosch and Mr Hawtrey who have thrown their weight on the side of dominance of monetary causation. The main contention on this side (on the ground of certain statistics of Mr. Snyder and Mr Kitchin) is that world production has been growing at the rate of about 3 per cent per annum for a long time in the past, and yet the crisis has declared itself during the last quinquennium only. Another point which has been made is that even those articles of which the production has not increased markedly

have also fallen in price.¹ Without entering the controversy at great length, it might be pointed out that this argument does not suffice to dispose of the maladjustment on the side of production, for we must have regard to the *cumulative growth of surplus capacity*, of which the volume was exaggerated by growing rationalisation on a purely national scale; nor should the important changes on demand side be lost sight of in studying the maladjustment. As long as consumers' demand naturally grew in proportion to the increasing production or could be kept up to the mark by methods like instalment selling, prices could not fall; but once the demand flagged, all articles of production were involved in the general fall of prices. It might also be pointed out that the development of the theory of long-wave movement points to "differential rates of increase of technical progress" as the main cause of depression. We shall therefore be justified in giving their due weight to both factors—the growth of production and the monetary influences—in our account. In a word the productive situation was too dynamic to allow any time for adjustment either between the rapidly growing volume of production and demand, or to the equally necessary adjustment and co-ordination between different branches of production. There is much in the view propounded by M Schuller the great Austrian Economist "Any artificial manipulation of currency values may create or aggravate an economic depression, but all these difficulties were in existence before the question of distribution of gold ever arose"

There can be no doubt of the high value of the contribution of Sir H Strakosch on the subject and of his attempts to show a sort of correlation between the distribution of gold and the phases of the Depression. Nor can any student of economics fail to be instructed by the attempts of Mr Hawtrey to represent the trade cycle as a purely monetary phenomenon in his very interesting work on "Trade Depression and the Way Out". Nevertheless there are serious gaps in a line of reasoning which ignores the disequilibrium on the sides of production and demand, or the steady increase

¹ Cf Selected Documents submitted to the Gold Delegation, p 22, "American Economic Review," Supplement, 1931, p. 177.

of stocks or the piling up of industrial and agricultural equipment. Nor can deflation account for the Depression adequately especially in view of the fact of the considerable credit expansion in various countries within the last three or four years¹

MALADJUSTMENTS OF PRODUCTION AND DEMAND

Thus it seems desirable to begin our study of the causal factors by first mentioning maladjustments on the production side. Here the conditions have been so rapid, and so great have been the revolutions of production both on the agricultural and manufacturing sides, that by themselves they might have endangered the economic equilibrium. Those who are tempted to over-emphasise the monetary factors, profess scepticism regarding the undue growth of production in the case of a great number of commodities. But one is on firmer ground when one regards the constant improvement of technique and increase of area cropped on the agricultural side and the steady growth of mass production and better methods on the manufacturing side. We have been having, in fact, a series of industrial and agricultural revolutions all comprised in course of a single generation, and in the race between population and production the latter has been winning decidedly, thanks to the continuous progress of science, invention and methods of transportation. In the case of some countries, as Prof Seligman put it recently "instead of population pressing upon food supply, food supply is pressing upon population." The growth of the *per capita* wealth in the world is an undoubted fact and it is this which gives rise to the painful contrast so often drawn between increasing wealth and unprecedented depression, but obviously such *per capita* growth of wealth implies rapidly growing production. It might be remembered that a much smaller measure of industrial progress made its contribution to the great depression of the eighties of the last century. Finally, it is this *crescendo* growth of production and even more of productive capacity that inspires visions of future like that of Mr Keynes contained in his recently

¹ For the Second Memorandum by Sir H. Strakosch on the Crisis, and for some comments on it, see "Economist," 9th January, 1931.

published collection of essays in which he foretells an unprecedented rise of the standard of living in the fairly near future. He calls the present unemployment "technological unemployment" and adds that "in quite a few years—in our own life time I mean—we may be able to perform all the operations of agriculture, mining and manufacture with a quarter of the human effort to which we have been accustomed."

On the manufacturing side, it will suffice to indicate the general growth of mass production and of the "heavy pressure on a large industry to maintain continuous operation," as well as the resulting surplus capacity in industry generally. This surplus capacity is being increased by the cumulative action of quite a number of factors. When we talk of the influence of large-scale production we are summing up a great number of tendencies—the influence of overhead costs, of every increase in demand whether temporary or permanent, the influence of new systems of salesmanship, the ambition of business magnates are among a few of them. The surplus capacity explains the keen struggles for raw material, and the dumping policies and movements in the direction of monopoly. Some very useful figures of the rapid march of production have been furnished by Prof. Ohlin in his Report on Depression. Among other easily accessible sources might be mentioned Prof. Patterson's "World Economic Dilemma," Prof. Loveday's "Britain and World Trade," Hamlin's "Menace of Over-production" and the valuable memoranda of the League of Nations on Production and Trade¹. But quite apart from these statistics we can appeal to the facts of a marvellous age full of economic revolutions. We have to deal with and compare not only the percentage increases of production and gold but also to take into account the great changes in technique coming one on the top of the other, to give their due to the conditions and psychology of demand on which this vast growth of supply impinged, and further to consider the radical changes in the methods and powers of salesmanship.

¹ Patterson, "World Economic Dilemma," pp. 71–72, Loveday, "Britain and the World Trade," pp. 53–54, Ohlin, "Courses and Phases of the World Economic Depression," pp. 54–67.

The valuable Report of the Economic Committee of the League of Nations on the present Agricultural crisis has now become the *locus classicus* on the subject, and in its pages we can trace the effect of technical improvements, of new scientific methods and of the bringing into cultivation of new lands upon the volume of agricultural production. Indeed in some directions the results of progress have been most embarrassing. Thus we read that "from certain stocks a really excessive harvest has been obtained which has become a danger for the wine-growing industry." But let us turn to the fundamental problem of the over-production of cereals. Taking Argentina as a representative country of overseas production, we find that the area under wheat has increased during the last three decades by about 165 per cent. No wonder the delegate of the Argentina Government commented as follows on these figures: "There can be no doubt that the seriousness of the depression is principally due to the over-production of cereals, which are most suitably grown in overseas countries where large fertile tracts of land can be extensively tilled by mechanical methods, and where it is difficult to rationalise production by substituting other crops for cereals"¹. The same authority adds that "an ideal solution of the problem would be to avoid this over-production, but as regards countries with extensive agriculture, the difficulties in this respect may be regarded as insurmountable." When we consider such figures and the growth of exports from the United States and Australia, we can have an idea of the causal factors of the Agricultural depression and of the relative decline of agricultural prices. In fact, in the United States the farm depression has already persisted for over a decade. It is in the light of such factors that we can understand the competition to which the European farmer is exposed—competition which he has tried to meet partly by mechanizing his own agriculture, in part also by altering his line of production and finally by invoking the help of protection and of preference.

Belonging, as we Indians do, to a predominantly agricultural country, we are interested in another line of discussion which has

¹ Report on the Agricultural Crisis. Economic Committee of the League of Nations, pp. 79, 83 and 292.

been going on—that the agricultural depression is independent of the industrial crisis and can be regarded as an outside factor. The discussion was started by some remarks of the distinguished Prof Schumpeter before the American Economic Association. His view is that there would have been in any case an agricultural depression even had there been no industrial depression¹. To that contention it has been replied that both depressions were due mainly to the same factor *viz*, the great changes in technique of production, and that it is part and parcel of the same downward secular trend of prices. In this particular controversy, the decisive matter is the vast growth of acreage, production and improvement of technique in agriculture—especially in case of cereals where the demand is comparatively inelastic and inexpandible. And to say that there would have been an agricultural crisis in any case is not to deny the inter-relation of the agricultural and the manufacturing depression.

There is no reason to suppose that in this matter we are breaking entirely new ground, for most economists have emphasised the importance of agricultural outturn and conditions upon industrial fluctuations². Some of the causal factors were different in the case of the agricultural and the industrial depressions, but the fundamental factor of growth of improvements and increase of scale of production was common, and so was the cyclical tendency.

The fact is that from the point of view of the advocate of Co-operation there is no occasion for a controversy between those who emphasise the currency aspect of the Depression and those who would point out the maladjustment of production to consumption. Are not these two aspects merely two different phases of the same general situation? The bed-rock fact is that there has been a great maladjustment in both directions and, in both cases, through want of the requisite co-operation. Surely on the side of gold and currency the action of America and France in drawing in so much gold and

¹ "American Economic Review," March 1931, p. 220.

² Pigou, "Industrial Fluctuations," p. 200.

sterilising it was the very reverse of Co-operation. Not that morally these countries were any more to blame than other countries which also scrambled for gold as far as their powers could go in that direction. Much closer co-operation should also have been shown in the way in which the exchange values of different currencies were stabilised. On the side of increased production, again, the constantly growing surplus capacity was added to without a thought as to the total effect—a state of things the very opposite of a co-operative policy. As Hamlin has observed in his "Menace of Over-production," "back of the business fluctuation of to-day is a potential capacity—a capacity to produce consistently more goods than income can absorb."¹ To the same effect Prof. Patterson says that "in the process of economic expansion and aggression, there is no great national or logical limit. No gain that is secured in the struggle brings final satisfaction, more is always desired. And just as long as economic organisation is along national lines, strain will exist."² In a word, we are here on the old economic theme of Maximum Satisfaction as applied to production on national as well as international scale. We remember the dictum of Marshall that "much remains to be done" in order to discover what are the limits of the work that society can with advantage do towards turning the economic actions of individuals into those channels in which they will add the most to the sum total of happiness. We cannot trust always to the "free play of self-interest to secure the largest possible welfare," but the trust is never more betrayed by producers than in a highly dynamic age of production like the present with combinations, tariffs and state policies all alike tending to push production forward at any cost. Nevertheless those who would blame the currency side of the Depression, are not without excuse—for in the absence of that full International co-operation of banks and currency authorities, that is yet to come, it takes a much shorter time to disarrange or even ruin altogether that most important instrument of exchange—Currency

¹ Hamlin, *op cit*, p. 168

² Patterson, *op cit*, pp. 366—367

CHANGES ON THE DEMAND SIDE

For understanding fully the effects of maladjustment in production we have to study not only figures of production but also the recent vicissitudes of consumption. We have seen the rigidity of production on the manufacturing side due to the requirements of mass production mainly, and on the agricultural side, caused by the well-recognised inelasticity of supply in this economic sphere, and we have now to envisage a factor which greatly aggravates the trouble arising from this situation—the instability of demand. On this side of our study valuable work has been done by Mr Loveday the distinguished economist of Geneva and that work has been notably supplemented by Prof Ohlin.¹ Take one more eminent witness Mr L. C. Gray (Principal Economist in Charge, U. S. A. Department of Agriculture), he adds the weight of his observations to the effect that “such an overwhelming shrinkage in demand, of course, modifies materially the equation of demand and supply”² with the result that even though the volume of agricultural production had not increased stocks would have inevitably piled up. Here we are obviously at the beginning of a dynamic and realistic study of movements of demand which is quite different from the dogmatic slogan of “under-consumption” which is even now finding expression in so many directions.

The causes influencing demand which are relevant to our study, might be divided into two classes. In the first class might be placed those factors which have gone to produce instability of demand. One of the most important amongst them is the great change—or successive changes—in the distribution of income caused during the War and post-War period by such factors as inflation and deflation, rise of wages and growth of a new plutocracy. Another factor is the growth of *per capita* wealth in several countries and even the changes caused by the War in the age distribution. Now the results of these changes on consumption generally are pretty,

¹ Loveday *op cit*, pp XIV & 86-92. Ohlin, *op cit*, pp 1926

² Proceedings of the American Academy of Political Science, June, 1931, p. 54

obvious and clear. The rapid changes of wealth go to dislocate the ordinary standards of consumption and thus help to make demand unstable. Much the same effect is produced by the sudden accretion of wealth in the hands of classes which stood at or below the line of subsistence level. It is obvious that they have yet to form a standard of consumption suitable to their new resources, in a word, they have yet to be educated into the proper use of their new resources. But besides that circumstance, there are always a variety of choices open to the consumer as to how he can spend that portion of his income which is above the needs of mere subsistence. Here are all factors which make for shiftings of demand. The result is as Mr Loveday has emphasised "that the problem of anticipating demand will become more and more difficult, and year by year the functions of sale and advertisement will become more important". Perhaps it might be added that these functions of sale and advertisement have, in the past, not been discharged in anything like the ideal manner and that the abuse of the systems of advertisement and instalment selling is in part responsible for the depression¹. There is such a thing as anticipating, fatiguing and exhausting demand. That and the exactions of middlemen have been factors in the occurrence of what is called the consumers' strike.

We have however to take account of another set of causes which go directly to reduce and lower consumption. There is, for instance, the influence of the income deflation and of the lag between retail and wholesale price. Then again the constantly increasing burden of tariffs is oppressing the consumer and lowering his powers of purchase. Still another influence acting in the same direction is the reduction of foreign investments by creditor-countries which has reduced purchasing power in the debtor-countries. The vast burdens of reparations and taxation are also prime factors on this side, and lastly the depression of silver has made an undoubted contribution on the same side. It is this complex of factors that we have to bear in mind when talking of "underconsumption" as a cause of the present crisis.

¹ Einzig, "World Economic Crisis," p 41

There is good ground for believing that had the world developed ere this a sound system of Consumers' Co-operation it would have suffered much less from these troubles on the demand side. With the middlemen's power and numbers curtailed by such co-operation the lag between retail and wholesale prices would certainly have been smaller. Moreover the conscious association of a large number of consumers would, to some extent, tend to stabilise demand, especially as the aim of co-operation is the uplifting of the mass of the people and raising their standard of living. In fact the development of Consumers' Co-operation is equivalent to educating the consumer and showing him how best to spend his money to his own and to general advantage.

We have seen the necessity of taking a long-period point of view in our study of influences on the side of production and demand which have a bearing on the problem of depression. The same is true, though to a smaller extent, when we come to envisage the monetary influences. Taking one aspect of what might be termed the "monetary complex" from which the world is suffering we find some hindrances to the smooth working of the gold standard going back very far into the past. Thus as regards a great many countries the complaint was justified that they were too anxious to increase their holdings of gold and too reluctant to part with it. Thus, in the pre-War writings of Hartley Withers and other experts, the complaint used to be made that in case of some countries "foreign exchanges very seldom go down to the gold point, because gold begins to go before they can get there."

THE MALDISTRIBUTION OF GOLD

But during the post-War period, the hindrances to the proper functioning of the gold standard have been multiplied and made far more formidable. For one thing, the reluctance to let surplus gold go out has at last found the unerring weapon of sterilisation of gold. The American policy of sterilising gold and of preventing it from having its full influence on prices has had important effects in the way of upsetting the proper working

of the gold standard. With such powerful forces as payment of reparations and high tariff barriers at hand to draw in gold and with the supplementary policy of sterilisation assuring a secure retention of that precious metal, the maldistribution of gold was not only unavoidable but was bound to increase by leaps and bounds¹. One cannot conceive of a more deadly stranglehold on the gold standard. For, while the payment of the reparations necessitates an export surplus on the part of the debtor-country, the rising tariffs render the existence of such surpluses of exports impossible in the shape of commodities. Gold alone can therefore go to pay the reparations, and it is at once caught and retained in the trap called sterilisation. As Dr Sprague has pointed out another and allied hindrance to the working of the gold standard is the fact that "America is a most unsatisfactory creditor-country from the point of view of the rest of the world". Nor does it stand alone in this respect. While the acceptance by America of the policy of sterilisation of gold was an important factor in the maldistribution of gold, there were influences acting in France leading to the accentuation of that movement. This is due as Dr Jack has pointed out to "important obsolete characteristics" of the banking system of France. Since the Bank of France is still in a sense a rival to the Commercial banks, the latter do not generally resort to rediscounting of bills when they want to increase their resources. "Therefore, when the ordinary banks find that they require additional currency, the simplest course for them to adopt is to draw upon their balances abroad and repatriate gold which they deliver to the Bank of France in exchange for new notes to be issued." This is one of the important causes of "the exceptional drain of gold to France"².

A very interesting account, of the factors of maldistribution of gold has been given by Prof. John H. Williams of Harvard from the American point of view and, coming from such an authority, it deserves respectful consideration. His contentions are that "down

¹ Patterson, *op cit*, p. 110. "Selected Documents submitted to the Gold Delegation," pp. 53-55.

² Dr. D. T. Jack, "The Crisis of 1931," pp. 42-43.

to 1925 the United States was the only leading country on the gold standard. Gold came to us because there was nowhere else it could go. We were able to underbid any other nation in the English gold market because sterling was more depreciated here than elsewhere. We accumulated our gold almost entirely in the period prior to 1925. Since that time, though the movements inward and outward have been pretty violent, the total stock is substantially unchanged." Another reason for the flow of gold to America is then noted by the Professor. "Our balance of payments has been favourable to gold inflow whenever capital has not been exported in large amounts." He grants that perhaps an additional factor in the situation might have been "the management of the standard, the practice of offsetting gold flows by central bank operations in the open market." The loss of gold by England is attributed to the fact that she had resumed the gold standard at too high a figure and to her comparatively high export prices. The gain of gold by France is explained as due to the favourable balance of trade as well as to the fact that the export of capital was prohibited by law from France up to 1929. Other co-operating causes in the situation are stated to the effect that the "French have not been interested in the exportation of capital in any way," and to the withdrawing of large balances from London and other centres¹.

On these views it might be permitted to offer a few observations. While attention has been drawn to the economic strength of the two countries—America and France—no mention is made of prime factors like tariff barriers and reparations. Again, attention has been justly drawn to the want of a suitable policy of capital exports from France. Lastly, Prof. Williams agrees with Dr. Sprague and Prof. Ohlin that the foreign investment policy of America is "one of the causes of this depression." This last statement is satisfactory so far as it goes, but what is most disconcerting in the range of discussions on this subject is that hardly any suggestions have been made for remedying the maldistribution

¹"Proceedings of the Academy of Political Science," June, 1931, pp. 111—118

or indeed for preventing its increase. A defence which does not take proper account of factors like reparations, tariffs, and the sterilising policy as to gold, cannot very well convince.

Before we leave this aspect, we might emphasise that the maldistribution of gold has been complete in every sense of the word. While the resultant shortage of gold has helped to drive prices low in most countries, even France and America—which have received between them the lion's share of the world's gold—have not escaped the fall. Even though in the case of France there has been an increase of note issue, this additional supply of notes has gone partly into the reserves of banks and partly into hoards. So true it is that the maldistribution is no blessing either to them who lose or to those who gain the gold unduly.

SHORTAGE OF GOLD

Needless to say that this maldistribution of gold is a far more formidable factor in the Depression than the shortage of gold. That shortage is quantitatively not very great, at least if the world is content not to raise its price level by a drastic upward movement. There are obvious methods of economising gold which are being practised and others that have been suggested. Nevertheless it would not be quite in accordance with facts to deny all influence to the shortage of gold, for statistical experts are of opinion that our position as regards gold is such as would have necessitated in any case a fall of prices below the pre-War level with the restoration of the gold standard. But in any case, of the two aspects of the gold problem, it is the maldistribution which is far more important both in its relative gravity and difficulty of solution. Those who want to learn the comparatively minor importance of the shortage of gold as a factor of the present depression, or to be instructed that the monetary factor does not occupy that position of predominant importance that has sometimes been ascribed to it, might be referred to the recent work on "The International Gold Problem" which is a symposium on the subject at which distinguished members of the Royal Institute of International Affairs have assisted.

INTERNATIONAL MOVEMENTS OF CAPITAL

There is a close connection between the problems of the maldistribution of gold and that of the reluctance of creditor-countries to lend steadily and wisely to debtor-countries, or rather the two phenomena are only two aspects of the same economic fact. It is obvious that the economic situation must lose its equilibrium were the maldistribution not balanced by adequate lending. Instead of that wise policy being followed out, we find that by the year 1928 there was a great slackening in the loans by creditor-countries, and the movement has continued up to date in spite of certain spurts of lending—the long-term capital movements declining particularly of late. Indeed, one great country in particular which is at present pre-eminently strong in the creditor position, has become virtually an importer of capital. No doubt the creditor-countries did not lack reasons for acting as they have done. Thus a careful and ingenious apology was made out by Dr Henry A. E. Chandler last year. He advanced two reasons why America could not lend more than it had done. In the first place, America had no favourable balance on commercial account apart from the amounts due to it on "allied debt and other foreign investment account," and its loans were fully proportioned to the difference between these two factors. The other source, out of which America could have lent, was the money which foreigners had invested in the American market; but "it is not a fair question to ask whether we are under an obligation to continue to re-invest their money under conditions which, and in countries where they are unwilling to invest it themselves?" So also at the Assembly of the League in 1931, the point was made that the misuse of short-term credit made by debtor-countries justified the denial of further credits to them.

The defence would appear to be complete and convincing from the debating point of view, but not from the broad point of view of International Economics or of general co-operation. From the latter aspect, we see the want of a bold policy of foreign loans such as the status of great creditor-countries requires in general interest. A brilliant precedent to be followed out was the policy followed by

Governor Strong which was the cause of such prosperity to America as well as to the world at large. The principles laid down by him are those of *international monetary co-operation* in the best sense. Thus, speaking before the Royal Indian Currency Commission, he asserted that the gold which had come into the United States, was so mobilised and kept under control that it "may be drawn upon by the rest of the world to fortify their own monetary position"¹. This was the very ideal of International co-operation in the working of gold standard. But Governor Strong went further and made statements which are worth quoting against some of the practices followed in his own country later. Referring to any tendency to scramble for or hoard gold, he urged that "the resulting situation might render the functioning of the gold standard in other countries extremely unsatisfactory". Indeed, he went on to develop a doctrine of "trusteeship" of the United States for the additional gold which it held. The "trusteeship" was expressly defined so "that this gold is to be retained by the United States until it can be used for the purpose of restoration and development of a post-War world". The country which Governor Strong so ably and worthily represented, might now be reminded of his wise dicta and be called upon to fulfil the duties of that trusteeship. There can be no question that had a longer lease of life been vouchsafed to Governor Strong he would have developed the policy of monetary co-operation in a masterly fashion, and in an important sense, the death of Governor Strong might be considered as one of the contributory causes of the present depression. Praise is also due to his then colleague Dr Sprague who was not at all behind him in advocating such international co-operation. He too subscribes to the view that if a country withdraws gold from the general market and clings to it, "it makes for a lack of co-operation with the rest of the world which would render the functioning of the gold standard very unsatisfactory". We might safely rely on these dicta of Governor Strong and Dr Sprague to serve as guides to the true policy of monetary co-operation and as reply to the

¹ Royal Commission on Indian Currency and Finance, Q 15, 317, 15, 229 & 15, 393

apologists of the more recent policy of their country as regards gold

BANKING POLICY, PRICE-LEVELS AND DISEQUILIBRIUM ON THE
CAPITAL MARKET

We now come to consider the question of banking policy and of the control of investment and of prices by Central Banks. On this subject one hardly needs to point to the great contributions made by Mr Keynes,¹ Prof Ohlin and Prof James W Angell amongst others. The views expounded by the two first-named economists, do not differ very materially and might bear to be summarised and repeated. It has been urged that the banks have restricted credit and have kept interest rates higher than they need have been. And here we observe the existence of a vicious circle, for while this action of the banks was due partly to the shortage and maldistribution of gold, this latter state of things was in its turn caused by changes in balance of payments due and ultimately to contraction of capital movements. The result has been as Mr Keynes has pointed out that the operations of producers ("genuine borrowers") went on being curtailed and prices tended to fall. At the same time, the appearance of distress borrowers—among whom might be classed not only governments which had to meet their obligations but businessmen who were in the same position—contributed to keep up the rate of interest. In this way the process was set up of curtailment of production, fall of prices and "spilling" of investments in the financing of losses. Prof Ohlin is perhaps somewhat less critical of the policy followed by the banks. He speaks indeed of "the failure of the banking system to stimulate investment through a more liberal credit policy." While allowing for the fact that "business recession always brings some disturbances of the balance" (on the capital market) and for the "severity of the underlying fluctuations" on this occasion, he

¹ Keynes, "Treatise on Money," Vol II, pp 377-380, Ohlin, *op cit*, pp 222-232.

yet concludes that "it is conceivable that a greater flexibility in the monetary system could have kept the disequilibrium on the capital within capital market within narrow proportions and thus mitigated the decline of the price level"¹

The opinions of banking experts on such a topic are entitled to careful study and we might consider with advantage the balanced views of Mr McKenna in particular² He shows that at any rate two of the factors in the price situation are within the control of banks, *viz*, the quantity of money and the rates charged for loans But the banks cannot control two other factors which are equally important—the rate at which money circulates and the use to which it is put He shows that though between the years 1928 and 1930 the volume of money in America has been approximately stable yet this maintenance of money supply even when "supplemented by a vast release of funds from speculative activity has failed to prevent a precipitous fall of prices accompanied by a disastrous trade depression The existing supplies of money were immobilised to a great extent and the rate of turnover drastically reduced, as a result of the psychology of fear which developed from the stock market collapse " So also he shows from the recent experience of England that "a larger part of the total volume of money has been left idle by its owners," and here too it is proved that banks cannot push money into circulation independently of the factor of psychology or of the extent of saving What if the additional money provided by the banks goes not into trade but into speculation or is merely immobilised by the dislocation of the markets? It has been also added that it is easy to say that it is the task of banks to control the price-level, but that it is less easy to overcome the difficulties in the way—to prescribe any standard for the rate at which credit should grow and to forecast the trend of prices For as Prof Edie (of Chicago) has observed recently, "price forecasting remains probably the weakest link in the whole modern technique of econo-

¹ Ohlin, *op cit* pp 226—227

² "Bankers' Magazine," March 1931, pp 840—841 & 478—480

mic forecasting" ¹ What then do we conclude from these opposed contentions?

What seems to emerge is that it is no use criticising the banks for keeping to their former credit policies which were not duly related to normal growth of production and which led unconsciously but surely to alternative conditions of inflation and deflation. Nor is it any use blaming these banks for retaining their former monetary objectives and for envisaging the monetary standard as really automatic in the light of the past economic history. What has now to be recognised is that the gold standard—or for that matter, any standard of the future—is to be a matter of much more systematic management and that the banks are to bear a leading part in the scheme of management. It is not in any sense the fault of the banks that they could not foresee the necessity of rationalizing the whole scheme of world economy and of submitting it to a system of central planning in which their credit policy had a pivotal importance. But in future, they must keep this point in mind and try to evolve a scheme of credit statesmanship to correspond to the new conditions—a statesmanship of which the main plank is a wise co-operation between central banks. The tasks of banking co-operation will be dealt with later. But attention might be drawn here to the views expressed in Prof Edie's recent valuable book on "Banks and Prosperity" which discusses how the co-operation of banks can be reasonably relied upon to prevent crises, to rescue gold standard from the jeopardy in which it has been placed and to "safeguard the world from convulsive movements of commerce employment and price levels". A new index of the extension of bank credit is proposed to be constructed on the bases of potentialities of production.

INELASTICITY OF THE PRICE SYSTEM

But even maldistribution and shortage of gold are not the only aspects of what I have called "the monetary complex" which is at

¹ Cf. Edie, "The Banks and Prosperity", pp. 146 & 177-178. Also note the same writer's paper on "Putting the new Era to the Test," (1930) and that of R. Burgess, "Guides to Bank of Issue-policy."

present oppressing the world. We have to take note of the great stress put on our price system by the vast cataclysm and of the abnormal behaviour of that price system during the post-War period. We have before us for one thing the maladjustment of wholesale and retail prices which is aggravating the crisis by increasing the reluctance of the consumers to purchase and by complicating wage policy¹. Here we have to note a whole set of costs which are adjusting themselves but slowly to changed conditions: the costs of transport, the cost of labour and the remuneration of capital employed to bring production within reach of the consumer. In these ways, hence here again, we are witnessing a case of maladjustment of costs. Another glaring maladjustment is between the prices of agricultural and manufacturing products. This also is a case, in part at least, of rigidity of costs—those costs consisting of the higher profits, wages and other costs of manufacturing industries. But this does not explain the whole gap. We have to take account also of the comparative inelasticity of agricultural supply. The weight of tariffs, too, was greater on the side of manufactured products. But the most important factor in the situation was pointed out by that ardent co-operator—Senator Michels of Italy, President of the International Institute of Agriculture at Rome—when he observed that while manufactures possessed syndicates, agriculture was without them, which was a great disadvantage to the latter. Consequently the Syndicate must be extended to agriculture. Needless to say by syndicates he meant in this connection Co-operative institutions. Over and above these anomalies of relative prices, we have to take account of the inflexibility manifested in parts of the price system where monopoly of one sort or another has had its say. As has been well observed by Prof. Schumpeter, “both level and system of prices have lost some of the elasticity they used to have.” He obviously refers in the main to the spread of monopolistic tendencies. For he went on to say “all commodities under strict control account for a special class of difficulties both when they fail to adopt themselves and

¹ Loveday, *op. cit.* pp 121—122, Einzig, *op. cit.* p 33, Ohlin *op. cit.* pp 80—85

when the control breaks down, as happened with some of the most important of them"¹ Here is no small item in the debit account against monopoly and it justifies the mistrust with which it was regarded by the classical and neo-classical economists Need we add that Co-operation is the very antithesis of monopoly?

REDUCED PLASTICITY OF WAGE-RATES

Many economists show a not unnatural hesitation to emphasise the influence of the rigidity of wage-rates on the crisis But if we blame the inflexibility of the whole economic system, we might not even in the interests of labour itself shun the wages aspect Students of the works of Marshall and Pigou are familiar with the great importance of plasticity of wage-rates—*i.e.*, that real wages should alter in response to changes in demand for products of labour So far as a wise wage policy is adopted on these lines and wages are made less rigid, the fluctuations of depression and of unemployment can certainly be reduced There is some reason to suppose that it is not only the system of commodity prices that has been losing part of its former elasticity. Even one who is very sympathetic towards the claims of labour—and what economist is not?—must take into consideration factors which tend to influence wage-rates persistently in the upward direction in the West, the political power of labour and the strength of labour organization The difficulties thus produced are of course not equally great in all countries and they seem to be at their maximum in the case of England Thus Mr. Keynes tells us that the resistance to an Income deflation are "overwhelmingly strong in the modern world of organised Trade Unions and a proletarian electorate" He also adds that though the failure of the General Strike in 1926 afforded an opportunity of timely reduction in wages, "political and social considerations stood in the way" No one could accuse economists like Mr. Keynes, Prof. Pigou, Sir Josiah Stamp or Mr. Loveday of being hostile to the true interests of labour Yet, according to Prof. Pigou, a tangible amount of extra unemploy-

¹ "American Economic Review," March 1931, p. 181

ment is certainly due to the maintenance of real wages above the equilibrium level. Mr Loveday remarks on "the lack of mobility and adaptability" as a characteristic of wages and labour in England. From America too there are pronouncements to the effect that "the widespread adoption of deliberate high-wage policies "have kept up wage-rates artificially during the current depression". But, as we shall see, a general statement of this sort though true of a fair number of countries is far from being true in the case of all countries, for in a good many countries there is room for increase of wages which would carry the double advantage of increasing the efficiency of labour and of enlarging the demand for products. We must beware of the tendency of some writers to generalize from the experience of their own countries. We shall not be very wrong then if we concluded that the labour factor of the depression has only a local influence, though such influence is exerted in some countries which carry the biggest weight and importance in economic matters. While, therefore, it is undoubtedly dangerous to pronounce any dictum on the topic which can apply to all countries individually, yet taking the world as a whole, one can accept the summing up of the problem by the German savant whom we have already quoted (Schumpeter) to the effect that "the depression has not been brought about by the rate of wages, but having been brought about by other factors is much intensified by this factor".

There can be no doubt that the problem of securing the plasticity of wage-rates is being rendered increasingly more difficult and complicated owing to the existence of quite a number of new influences. Thus the important changes on the demand side which we have already noticed—and particularly those on the side of the plasticity of the demand for various commodities—constitute so many factors making for additional difficulties. Obviously, the more dynamic the situation the greater is the difficulty of securing plasticity. Another influence has been pointed out as working on the same side—*viz*, "changes in the productivity of industry as a

whole."¹ We are in fact faced by important new developments impeding still further the plasticity of wage-rates and adding to the rigidity of the economic system

If we undertook a direct reduction of wages as an immediate remedy in a period of deep Depression, the result might only be to reduce demand for commodities and thus to intensify the depression. The better course is to register as it were for all future use the need for plasticity of wage-rates which present depression has so well taught. It is not in the very midst of a great crisis that we can expect the normal sequence of effects to follow and hope that reduction of wages must needs bring about a reduction of prices and its usual corollary—an increase of demand and rise of profits.

When making a study of this topic, a reference might with advantage be made of the recent work on "Unemployment as a World-Problem" by Mr Keynes, Mr Karl Pribram and Mr E J Phelan—Mr Phelan has marshalled the arguments against any reduction of wages, while Mr Keynes has chosen to deal with the more positive aspect of the matter—the inauguration of construction programmes by Governments. Here again, to our mind, no generally applicable answer can be given, as is also the case as regards the policy of wage manipulation. Not many governments are in the financial position to undertake such construction programmes. But in the case of those countries which are in a position to undertake such programmes, notably the countries which have gold, there can be no doubt that such a policy will be a suitable and fitting complement to that of the reduction of interest advocated by the same authority.

THE TARIFF SITUATION

The events of the War and of the post-war epoch had raised the protectionist system to its highest pitch and had shown us the worst evils of selfish economic nationalism. The commercial policy of the post-war period constituted a record in retrogression. The old system of European commercial treaties, which had been a fair counterpoise to the excesses of protectionism, was ruined. Under

¹ Prof T E Gregory, "The Gold Standard and Its Future," pp 46—47

the influence of the desire for self-sufficiency in war, the ambition to help on new industries started in war time, the fear of depreciated exchange and growth of national antagonisms, new and deplorable tariff tendencies had made their appearance. Almost everywhere there was to be seen a long list of prohibitions on imports. The wide adoption of 'tarifs de combat' "coefficients of increase" and of specific tariffs made the economic warfare chronic. Moreover as prices had been falling, the burden of specific tariffs had been growing heavier and heavier automatically. Mr Loveday has justly observed that "specific tariffs are typical of the most general weakness of modern economic legislation and organisation, they are rigid while values fluctuate and demand hovers". The result was that trade has been hampered, balances of trade have been worsened further and the downward tendency of prices has been accentuated.

Lest it might be thought that the picture of retrogression which has been drawn here is unduly pessimistic, let us see how the most recent general study of tariff policies depicts the situation. "The tariff policy of all other European countries has also been marked by a tendency towards higher tariffs. New or revised tariffs have been generally enacted, and in every case, a higher scale of duties has been adopted. Greater specialization, with resulting complicated schedules, has been also a characteristic of all post-war tariff reforms. In most cases, the duties are payable in gold, so that the protection afforded by them is not affected by currency depreciation. Especially remarkable is the tendency toward greater protection in the States newly created from the disruption of the Austrian and Russian Empires. They have resorted to high protection as the only means for achieving economic independence. In addition to the generally increased protection, a system of import and export restrictions, unknown in pre-war times, has been inaugurated in many cases, making the movement of goods from one country to another extremely difficult"¹

That system of Most Favoured Nation policy which had been the consolidating link of tariff levels in the pre-war days, had fallen

¹ Cf. O. Delle Donne, "European Tariff Policies since the World War," pp. 266-267

almost into desuetude and was being undermined by the system of Customs quotas and in other ways¹ Complaints were made particularly of the system when "quotas were granted on specially favourable terms to a country whose ordinary exports were much lower than those of other countries concerned" This was equivalent to establishing a system of formidable customs preferences on the top of high tariff walls Other devices and notably preferential projects threatened to undo the proper interpretation of the Most Favoured Nation Clause

The World Economic Conference held under the auspices of the League of Nations had called for a return to a more liberal commercial policy and to an unconditional Most Favoured Nation policy in particular But though there was for some time an improvement in commercial policy that progress was swept away by the rising tide of the Depression We should note here the *double* relation between the tariff situation and the depression. "The smooth flow from country to country alike of goods, services and securities" was the condition not only of the normal working of the gold standard but also of the economic system of the world It was the excesses of tariff building that helped to upset the balances of trade and consequently to disorder investment and to exaggerate the maldistribution of gold In the end, when the flood of depression had arisen to its height, the nations felt constrained to abandon all thoughts of a liberal policy of trade and to take shelter behind the hurriedly thrown-up earth-works of additional restrictions The world had, in fact, to pay dearly for their long hesitation and the postponement of good resolutions Had the movement towards the lowering of tariffs come a few years earlier, or had the world followed up at once the suggestions of the Conference of 1927, the economic history of the present epoch would have been changed

Instead of any great lowering of tariffs has come, a notable but—let us hope temporary—protectionist reaction First came the Warsaw Resolution of 1931 in which the main innovation consisted of preferential treatment which the agricultural countries of Western

¹ On this subject, the minutes of the Second Committee of the Assembly of the League of Nations (1930) form very instructive reading

Europe proposed to receive from the manufacturing countries that would import their agricultural products. So far as the resolutions imply the co-operation of certain countries they are welcome, but these proposals went against the policy of the Most Favoured Nation Clause and indicated a policy of discrimination against overseas countries. The second step in the protectionist reaction consisted of proposals put forward in the Assembly of the League of Nations to go back upon the recommendations of the World Economic Conference and to formally impart to the Most Favoured Nation Clause a conditional and limited interpretation and meaning. Finally, came the third and final step of the reaction. The intensification of protectionism had long been endangering the commercial policy of free-trade countries which had to rely on exports. In particular, even many leading economists of Great Britain had begun to advocate a transition to protection. The abnormal capital movements and the threat to the balance of trade has driven even Great Britain—the home of free trade—towards protection. True, something has been gained by the depreciation of the sterling but that support is temporary and conditional. It is to be hoped that the land which produced an Adam Smith, a Ricardo and a Marshall, will be able to show how to get the best out of Protectionism while avoiding its evils.

THE PROBLEM OF REPARATIONS

The treatment of this topic has been kept advisedly for a late stage in this chapter, for as a factor of depression is quite general in its effects and exaggerates the action of every factor leading towards depression. The present depression is a triumphant vindication of the theories of Norman Angell and proves conclusively that reparations prove a curse alike to him who pays and to him who receives them. The French indemnity of 1870 led to the great "Krach" and heralded the great industrial depression of eighties and nineties. But that mischief was as nothing compared to the havoc wrought by our present enormous indemnities. The inevitable idea of scaling down the reparations or even of granting a moratorium as to them gives rise to widespread bitterness and to much economic un-

certainty. On the other hand, the possibility of paying them is quite out of the question. Eminent economists have been busy for years forming successive theories regarding the possibilities of their payment. One of the best was that the debtor-countries should develop a growing and immense excess of exports which would be adequate to these mammoth payments. But then the authors of these theories were themselves alarmed by the prospect of the future exporting power of debtor-countries after they had succeeded in developing such vast productive strength. In any case, we need not concern ourselves much with these speculations, since such excess of exports has not materialised, thus clearing the ground for fresh and fruitless theories.¹ Meanwhile the unpaid reparations have worsened the economic situation in every possible way. They have upset balances of trade and thus have powerfully influenced the maldistribution of gold. The fear of the potential excess of exports from debtor-countries—an excess by the way, which never realised—has set tariff builders to work with feverish energy at raising the tariff walls. The vain attempts to pay reparations has depreciated and ruined currencies which in its turn introduce the troubles of inflation and deflation. Moreover, balances of trade have been upset and, in an important measure, production has been misguided and deflected. For instead of being directed to meet a normal and healthy world demand, any increased productivity has been made the instrument of securing an artificial excess of exports as a means of effecting vast payments. In this way the reparations must be considered as an important factor in the maladjustment of production to demand. Nor is this all. They are a most fertile cause of the additional burdens of taxation and have contributed in this way also to cripple commerce and industry, while the need of debtor-countries to secure an excess of export at any cost has led to a great intensifying of competition. Finally, such embittered international competition and such crippling of commerce and industry have acted as brakes on international lending.

¹The reader should consult on this interesting topic "The Young Plan in Operation" in the "Proceedings of the Academy of Political Science," January, 1931.

Here we might pause to pay our tribute to the clarity of vision of Norman Angell who anticipated by more than two decades the lesson that mankind is only now learning—that war is unprofitable economically even to the victor. True the economic analysis of Norman Angell was not quite comprehensive, his main position being that “modern wealth and trade are intangible in the sense that they cannot be seized or interfered with to the advantage of a military aggressor.” Experience has taught mankind the further lesson that heavy reparations not only cannot be exacted but go far to reduce the wealth and prosperity of the whole world. Obviously they cannot be exacted—since what Germany has paid she has paid out of her borrowings, while the effects of the reparations on the world economy has been most disastrous. Even if the reparations could be paid by means of artificially cheapened exports that would upset the course of international exchange. It is a far cry from Norman Angell to Lloyd George. But even the former advocate and author of the system of heavy reparations has at last learned the whole lesson, denounced his own errors in the matter and has appealed to the world to abolish reparations and debts. America too is being taught that lesson not only by the hungry and hysterical crowds of the unemployed, but by eminent authorities like President Butler.

In a word the reparations form a veritable and gigantic octopus which has seized the economic world in its fatal grip. It is too much to say that the mere abolition of reparation would remedy the crisis. But certainly until this incubus passes away, there can be no return to healthy or sound economic conditions. Let us remember what a crash (Kriach) was caused by a very much smaller measure of reparations in 1870 when the conditions were vastly easier for paying up. In the present case, every device was employed to swell the total reparations and no device—whether of piled up tariffs or the misuse of monetary mechanism—has been spared to make the payment impossible. Is not this policy the exact antithesis of International Co-operation? And need we wonder if these courses “bring upon us an economic blizzard”? The most enlightened economic opinion even in America deplors the

impingement of a vast non-economic factor like Reparations on the economic sphere and would vote willingly for either a scaling down of debts or for a long moratorium

THE PSYCHOLOGICAL FACTOR

No diagnosis of the present depression can be complete without adverting even briefly to the psychological conditions intensifying it. As is well known, what Prof Pigou has called errors of optimism and of pessimism both play an important part in industrial fluctuations. There were important influences in the present case which were sure to increase the extent of both kinds of errors. One important source of error, of course, is that "productivity and desire both move in jerks." On both sides, whether of demand or of supply, the jerks which have taken place in the present case, were unprecedented, what with the effects of new methods of production, of war and post-war changes in demand, of inflation and deflation economic forecasting was more than even difficult. The great booms that we have had a decade ago, were undoubtedly due in considerable measure to the effect of optimistic errors.

At present, after having had our fill of optimistic errors, we are naturally suffering from the opposite influence of pessimism. That pessimism is engendered by our ignorance regarding the course and future phases of the Depression. Moreover during past depressions, there never was so much material to feed the feeling of pessimism. No former depression had so many influences working for it and so many aspects of mischief. And the very fact that the press is daily busy discussing all of them naturally deepens the pessimism, for surely no other depression received or assured such widespread comment and discussion. It is quite possible that the danger from some of the aspects of the Depression might be unduly exaggerated in and by this daily discussion. There is a grain of truth in the saying that we are suffering even more from over-prediction than from over-production. The tendency or rather determination in some quarters to make political capital out of the distress of some nations naturally heightens the forebodings.

In his excellent work on the "World Economic Crisis," Dr.

Paul Einzig has done well to emphasise that the present Depression is mainly psychological in origin. But so far as this holds true what remedy or tonic can be so potent as International Co-operation? Obviously the prospect of such co-operation alone can revive the flagging energies of mankind and remove that economic diffidence which has been gathering force for over a decade.

EFFORTS AT APPLICATION OF THEORY OF TRADE CYCLES

While controversy has been active as regards the former aspects of our problem, the conflict of expert opinion remains to be noticed as to the place of the present Depression in the history of cycles. Many experts agree in believing that we are suffering from a long downward movement of prices similar to that witnessed in the 'eighties.' To these statisticians, it would appear that the length and severity of the present depression cannot be adequately explained unless we take into account the "down swing of the long wave." They also pointed the fact that during the past half a century or so "every second or third depression develops into a major depression." This "long-wave movement" is connected with the maladjustments of the advance of production of different kinds of commodities and of gold, and we have already seen the divergences of production in different industrial regions. The hypothesis of the long wave has also been supplemented in other ways. Thus, Mr Willard L Thorp argues that "we are certainly in the trough of a long wave, far in the downward wave of a Juglar cycle, and probably in the trough of a forty-month cycle." Thus, the coincidence of three cycles "intensified by agrarian crisis, protective tariffs, monetary policy, reparations and inter-allied debts" and other factors which we have considered is invoked to account for the depression before us. On the other hand, an authority like Prof Ohlin considers it impossible to isolate and to trace the effect of any "long downward price wave" on account of the complexity and number of post-war factors. It is just here that much is to be gained from the study of similarities and dissimilarities of the present depression and its predecessors. Such a study has been carried out, though naturally not

completed, by Prof Ohlin himself for the League of Nations. While the present crisis exceeds all former ones as regards the decline in prices there are great parallelisms between it and the depression of the "seventies" and "eighties." In both cases, there was an antecedent period of great technical progress, in both too there was an accompanying agricultural crisis, as also a shortage of gold brought on by monetary reforms. These resemblances will no doubt help to fix the precise character of the present depression in the history of cyclical fluctuations, but the full force of the resemblances can be appreciated only when the present Depression has ended. Nor can we neglect the circumstance that the present depression is separated by about fifty years from the last great depression—that of the 'eighties.' While the modal length of ordinary business cycles is from three to three and a half years, the "long waves" are believed to have an approximate duration of from forty to sixty years. The studies of Kondratieff and others establish a presumption that there are such "long cycles" of that length. Kondratieff attempted to show that since the last decades of the eighteenth century the world has witnessed "two-and-a-half such long waves." As the trough of the last such wave was reached in the period 1890—1896, we might possibly be in the trough of the next wave since we are about forty years distant from that period (Of W Mitchell, "Business Cycles" pp 226—132). The coincidence that the world is in the trough of such a long wave besides being in the trough of the inter-crisis cycles of Juglar might account in some measure for the violence of the present Depression. At any rate in the face of these fundamental analogies we would do well to emphasise the world-cycle aspect of the present cataclysm, for besides the above factors usually found in such cycles, we had the speculative boom in America and fears of its collapse which are to be expected at the approach of such crises.

In concluding our study of the causative aspects, let us indicate the main tendencies to which the present depression can be attributed. In the first place, there is the unregulated and constant extension not only of production but, what is more, of productive capacity. To use the words of Mr Hamlin "the cost of maintaining this idle capacity has brought into general operation the law of diminishing income returns." It is suggested that the chief and basic regulative power—one which can act at both ends so as to adjust production and consumption mutually—is Co-operation (both productive and distributive). It was necessary to remind a world in which science is and has been adding constantly to productive equipment that innovations in production require as their complement an increasing measure and a special agency of adjustment on the part of the world economy. On the monetary aspect of the Depression, we find that in spite of the beginnings of co-operation between currency authorities there are still many influences at work—the very reverse of co-operative. The mercantilistic poison has not even now been ejected from monetary and banking practice, it not only persists but makes use of the most advanced forms and resources of banking to upset the working of the Gold Standard. The influence of high tariffs—it need scarcely be said—works against world co-operation by breaking up markets and making a great many of them too small to take up the results of mass production. By raising the prices of protected goods, high tariffs lower consuming power all round. Then came the Reparations of which the mischievous effects grow in every direction *pari passu* with the increase of economic solidarity. Who can estimate the harm done by the present system of Reparations when their amounts are utterly inordinate, while those nations which have to pay them find every possible hindrance placed in their task by the misuse of tariffs as well as of the monetary standard? Under such circumstances, these Reparations form the very anti-climax of co-operation between nations. Labour policy too is in part anti-social *i.e.*, in so far as it places obstacles in the way of plasticity of wages. Finally, since, as we have seen, we have to deal with the important influence of the business cycle, we want such a modification of the present

economic system as to eliminate the business cycle. The query for the consideration of the reader is whether Co-operation is likely to be the medium of so combining the idea of a general planning of the world's economic activity with that of individual initiative as to furnish us with the pivot of the proper policy which is to serve as the necessary corrective of the business cycle?

CHAPTER II

DISCUSSION OF REMEDIAL SUGGESTIONS

Before noting and appraising the value of the remedial suggestions that have been advanced as regards particular aspects of the Depression, it is well to indicate the general direction in which our efforts to overcome it must converge. Needless to say that ours is a plea for a close collaboration and co-ordination, for in such co-operation lies the only hope of saving our economic fabric. To begin with the first steps to success—how except by a pooling of resources of debtor and creditor-countries is the great financial and credit cataclysm that threatens the world in the immediate future to be averted? Nor can we solve the problems of restoring and improving the gold standard and checking the fall of prices without co-operation in the field of banking and credit. That *vis medicatrix naturae* to which we never look in vain has already given us the first steps in this remedial programme of co-ordination and co-operation. Thus, America has set the pace as a creditor-country in affording help by its moratorium offer, and, had that offer been accepted in the proper spirit and not ruined by political bitterness, it would have formed a most fruitful first step to recovery. As Mr. Keynes has said, the world was waiting for the emergence of some definite and new outside factor. Unfortunately when such a factor did make its appearance, political bitterness at once marred the prospect. Then again banking co-operation has been tried so far only on a limited scale, and even there the Bank for International settlements has yet to go a long way before it works up to its programme. As regards the tariff problem, the League has done its best for securing a Tariff truce,

though unfortunately with far less success than it deserved. Coming to the basic problem of maladjustment of agricultural and manufacturing production, we see a beginning of co-ordination in the shape of international cartels and mergers. These are however the mere beginnings of rationalization on an international scale. Then, as to agricultural co-operation, we see that it has been progressing in some countries. In particular, the Federal Farm Board has been trying agricultural co-operation on the larger scale, including plans for adjustment of the acreage under wheat and cotton to the demand. But Co-operation has yet to rise to its full stature. It is only when Productive and Distributive Co-operation is integrated on the national scale that it can exert its full salutary influence upon international adjustment of production and demand. As we shall see, later, very important work is being done in the field and co-operative activities are being co-ordinated in a promising manner by the International Committee for Inter-co-operative Relations.

As one more example of the undoubted fact that Co-operation is beginning to be regarded more and more as the economic policy of the future, a reference might be made to a dictum in a paper read recently by Mr H A F Lindsay before the Society of Chemical Industry. "I suggest that science has outstripped economics—that science has been quicker to respond to the new spirit which is now abroad, a spirit which is best described as a *change over from the ideal of competition to the ideal of co-operation*, from the ideal of efficiency attained under pressure of environment and other outside forces to the ideal of efficiency to be attained by mankind working consciously, constructively, and in co-operation towards a common goal. We cannot eliminate competition altogether, and we probably would not do so if we could. But I suggest that as a constructive force it is too instinctive, too haphazard, and too unreasoning to be allowed to occupy the whole field. Its future position will be definitely subordinated to a new force more constructive, more controlled, and therefore itself better *qualified to exercise deliberate and conscious control*"¹

¹ "Journal of the Society of Chemical Industry" February 5, 1932, p 122.

During the discussion which followed on that paper, a distinguished economist observed that this view "seemed to him to be communism—although not of the Russian type" It might be remarked with due deference to that economist that there is some confusion of thought in this remark While Communism rules out individual initiative, and competition expects far too much from it, it is for co-operation to effect a synthesis of the competitive and the social forces and initiative To use the Hegelian phraseology, while competition is the thesis and communism is the anti-thesis, Co-operation is the synthesis

As has been said before, our order of treatment of the remedial aspects of the Depression must differ somewhat from that adopted in the treatment of causation for here more regard has to be paid to the urgency of the solution of each question, and hence such remedies as can be applied in the immediate future to the body economic to cure it of the acute phases of the ailment have a claim to precedence over real remedies which take a long time to improve radically the economic constitution Hence the problem of Reparations as the most urgent has to be taken in hand first It is the irony of fate that this, the most difficult step in international co-operation, has to be given the precedence as regards order of discussion Still it is almost superfluous to urge that the problem of Reparations must take the precedence in any remedial programme as regards its claim to urgency of solution

An examination of the history of the Reparations is the necessary background to the policy to be followed in the future with regard to them There can be no question as regards the fact that Germany has made a tremendous and unexampled effort in the post-war epoch to set her financial and industrial house in order Rationalization has been carried on in every line and yet the fact stands that she has been unable to pay the Reparations Let an American authority on Economics speak on the subject "The external debt (of Germany) seems to be growing, not diminishing Instead of taking from Germany, the rest of the world is lending more and more to Germany To date, the attempt to collect from Germany does not seem to have succeeded Prior to

1924, the amounts actually paid by the German Government that could be credited to reparation account were not large. Since 1924, the amounts due have been punctually remitted, but only from the proceeds of the loans just mentioned"¹ Germany cannot in fact pay the reparations with the tariffs hindering her exports so successfully.

These are facts too patent to be neglected. The Dawes Plan and the Young Plan had to be formed successively in order to scale down the liabilities virtually. The Dawes Plan had to adopt the "capacity to pay" theory, to provide for active help to Germany in the shape of loans and to give her other relief. The Young Plan went even further and provided for temporary moratoria and conditional reparations. In spite of her magnificently carried out programme of payments, Germany cannot develop an export balance to pay her reparations simply because some of her creditors must needs go on pressing for payment of reparations while they are equally determined not to adjust their own economic conditions sufficiently to let Germany develop the necessary exports. Taking the world as a whole, and even the great industrial countries individually, many authorities are of the opinion that it would pay the nations to abolish all reparations. But even a drastic reduction of amounts and the granting of proper facilities for payment might suffice to meet the situation.

On this subject it is impossible to avoid some reference to the report of the Basle Committee of Inquiry. While emphasising the fact that the payments so far made by Germany had not been made out of her own resources, it rejected as impossible two suggestions that had been made as regards the manner in which Germany was supposed to be able to pay the reparations. These consisted of the mobilisation and sale of Germany's foreign assets, and the method of a drastic reduction of imports. Having rejected these, the Basle Committee could recommend only that the existing volume of Germany's foreign credits should be maintained, and, further, that "part at all events of the capital which has been withdrawn should be replaced from foreign sources". But as no foreign investor would lend to Germany with the whole weight of reparations

¹ Patterson, *op cit*, p 156

pressing her down, the Committee further recommends an assurance that "the international payments be made by Germany will not be such as to imperil the maintenance of her financial stability" Here is a new call for scaling down of the reparations supported by the united weight of an international committee of experts That committee, it has to be remembered, decided *unanimously* that the procedure and safeguards laid down by the Young Plan were not meant to apply to the present most abnormal set of conditions It is therefore futile to appeal to the unconditional character of annuities under that plan or to the maximum time limit of moratoria as determined by that scheme

Obviously, it is a compromise which must guide the world on this subject On the one hand, it would certainly be premature to abolish German reparations without waiting for the fate of the other war debts Such a premature abolition of reparations from Germany without a preliminary general consideration and settlement of war debts, would result in inequality and injustice to other countries If, on the one hand, the appeals of some creditor-countries to the letter of Treaties are valid merely from a lawyer's point of view (though not from the point of view of the economist) on the other hand, we cannot accept the dictum of a representative of the debtor-country that it will not or cannot pay any more reparations in future If reparations are wiped out at once on one side, the question of war-debt cannot be postponed For one thing, America has to be convinced that it is to her interest to wipe out war-debts along with reparations The issues on this matter have been well put forward and considered by Prof Cassel in the well-known Harris Lectures on "Foreign Investments"¹ He has shown the irrelevancy of America's adopting "simply a lawyer's point of view" in arguing that "we have nothing to do with the German indemnity, we have advanced loans to the European Allies in the War and we simply insist upon these loans being repaid" He adds that this legal argument has nothing to do with the great economic problems of war-debt payments, for "economically it cannot be doubted that the Allied countries have to pay the United

¹ "Foreign Investments" (Harris Lectures for 1928), pp 63 & 93

States chiefly by means of the indemnity payment they receive from Germany." And since it is by their strongly protectionist policy that the would-be recipients of reparations have placed very great difficulties in the way of the payment of reparations by Germany, it is for America to choose between maintenance of high-tariff walls and receipt of war-debts. In a word, Prof Cassel would have America adopt with respect to war obligations a solution "allowing the whole economic life of the world a fresh start."

But some little time is needed for pressing this conviction home and to induce America to make a change from her negative attitude. Hence, the value of the suggestion of Mr Keynes which would have the Lausanne Conference prolong the moratorium for Germany over the current year—the time thus made available to be utilized by its creditors in arriving at a definite and ultimate determination of the liabilities of Germany. Nevertheless there can be no question of any further evading of this final and permanent scaling down. For a resort to moratoria as regards reparations and "stand still" agreements as regards ordinary debts on the commercial side leave the world in a growing state of uncertainty.¹

These considerations have prompted Sir Arthur Salter's recent and wise suggestions. His proposals have the merit of elasticity and adjustability to changing circumstances. Thus, the period of the moratorium is to be extended automatically on the basis of certain criteria which are laid down beforehand. So also the burden of Reparations is to be made adjustable by the issue of shares of the ordinary variety on German railways and industry. The burden of debts is also to be reduced generally by the raising of the world price-level to that of 1929.²

REMEDYING THE MALDISTRIBUTION OF GOLD

It is when we consider the urgent and essential need of remedying the maldistribution of gold that we come to realise the full importance of continuous lending by countries which are in a position

¹ The "New Statesman and Nation," 16th January, 1932

² Cf. Sir Arthur Salter's recent book on "Recovery."

to do so. As the views of an outsider on this subject would be suspect, it is best to let authorities of the creditor-countries speak upon the subject. Prof. John H. Williams (of Harvard) has made some valuable observations on the subject which will bear quotation. "The principal alleviation to the present bad distribution of gold must be the flow of capital through the world. For some years prior to 1928 we did preserve more or less a balance in the world through the flow of capital from this country. We were exporting about \$1,000,000,000 a year, but first the stock market boom served as a magnet for foreign balances and depleted the reserves of the younger countries of the world which could ill afford to part with them. That I think to be one of the causes of this depression. Since that time, the depression itself has made for a bad international bond market. We ought to lend a sympathetic ear to all responsible suggestions as to ways and means of bringing about a great international flow of capital from the countries now holding so much of the world's gold, France and the United States." It is perhaps true that borrowing countries in some cases drew to an undue extent on foreign credit or misused it, but the remedy of excessive use of credit is not an excessive restriction of credit. There again it is an American authority who would guide us aright. "It is well to learn from past experience but a mistake to get too much out of it. The world has become so interdependent economically that it cannot function without credit. It is essential that the supply of credit be maintained."¹

That the lending countries have, besides helping the borrowing nations, not done so badly in the past on their own account is obvious. Here, again, it is best to let a financial authority from the great lending country do the talking. Thus Mr. Robert E. Kuczynski (Council Member, Institute of Economics, Washington) has told us that "in any case, the terms on which American loans were granted to Germany were by no means easy. The total cost—expenses of issue, interest (and premium) and incidental expenses of debt service—will annually average about $9\frac{1}{2}$ per cent of the net

¹ Cf. the paper read on "International Financial Problems" (1932) by Norman T. H. Davis (Member of the Financial Committee of the League of Nations)

proceeds to the borrower" He adds as a corollary that "the American bankers earned high commissions, the American investors received a high rate of interest, American exporters found an outlet in Germany." Further, he reaches the conclusion that "if America continues to export capital to Germany, she will find there an open market for her commodities, the Reparation plan will operate successfully, and the American savers will enjoy profitable investments" Nor had he any doubt that German borrowers were able to repay the loans, for he adds that "heavy as the terms of many American loans to Germany may be, if measured by the yield to the borrower, the total amount so far involved is not of a size as to make it doubtful that almost every borrower would be able to raise the funds necessary to fulfil his obligations when they became due."¹ It is obvious that it was only the latter abnormal developments that impaired the position of Germany as a debtor for most of the loans went to promote the economic and financial rehabilitation of Germany

Surely the course of events has not falsified the anticipations of the financial authorities For the position of Germany was not shaken until, during the short period of about six months, capital amounting to about £ 170,000,000 was withdrawn and the Reichsbank had parted in a still shorter period with nearly £ 50 millions in gold The objections to letting her have the benefits of the Hoover moratorium led to further withdrawals of balances and funds All this came on the top of the sudden contraction of international lending and investment which came on in 1929 But while recognizing the need of a sound and steady lending policy both for the solution of the reparations problem and for proper redistribution of gold, it has to be admitted that not all the creditor-countries however are in a position to lend Take the case of England in particular There can be little doubt that if the superfluous gold now in Paris and New York was at the disposal of Montagu Norman he would make short work of the depression But the lending power of England is at present very restricted indeed Some time back, the Colwyn Committee emphasised this and pointed

¹ Harris Lectures, 1928, pp 179, 186, 187 & 190

to the reduction in the volume of British savings due to the direct effects of War as well to the resultant changes in the distribution of national income and the high taxation. No wonder that many authorities in England are reconsidering and revising their "traditional belief in *laissez-faire*" in the matter of foreign loans in the interests of the maintenance of the equilibrium of domestic industry."

In the matter of the better utilization of gold and expansion of credit, we are entitled to look to America for a lead. The reason is that there alone there is at once a surplus stock of gold and a banking organization of an up-to-date character which can properly utilize it for the good alike of America and of the world. There also lingers the tradition of the wise and bold policy of the late Governor Strong, and that tradition is well represented by experts like Dr. Sprague and Prof. J. H. Williams whose views we have already noticed. The Gold Delegation has done well to emphasise the importance of the lending states maintaining an even flow of capital. And it might be added that at the Session of the League in 1931, it was an Indian delegate who had a similar recommendation added in the report of the Second Committee. As a matter of fact, in the matter of the expansion of credit, the initiative seems about to be taken by America and a bill has been just passed by the House of Representatives securing powers for expanding the currency. As regards the formation of the Reconstruction Finance Corporation and the widening of the borrowing powers of the American banks, Mr. Hartley Withers has been telling us that "it is all to the good that the American authorities, at least, are not afraid to meet a crisis of glut by the provision on bold lines of fresh purchasing power. They have shown themselves ready to put orthodoxy into the cupboard for the time being and to pledge the credit of the Government for the purpose of thawing frozen assets and releasing gold." All depends of course on the way in which these powers are utilized and interpreted, and whether the public ceases to hoard currency and begins to purchase more goods. The further step of stimulating and regulating foreign investment remains to be taken yet. In fact, the present depression has much to do with what might be called the interregnum in the

regions of international banking and investment. The old banker of the world (England) has at present been rendered unable through circumstances to carry on his old business of international investment, while the two new firms of world bankers are as yet somewhat new to their business. They have not yet had time to come to grips with their business and to develop a policy of steady and continuous lending.

THE PROPOSED STERLING BLOC

If the problem of the maldistribution of gold is not solved in this way, the world is not likely to wait for an indefinite time—until the balances of trade of France and America have become so adverse in the ordinary course of events that a natural redistribution of gold is effected in that way. Indeed, the period would be very long indeed in which such a consummation could be achieved. The economic strength of both France and the United States is well known—and that both on the agricultural and the manufacturing side. France which was once an agricultural country to a great extent, has vastly increased her industrial equipment at the expense of Germany. Consequently the reversing of the process of the maldistribution of gold in the ordinary course of events would be a very lengthy process indeed.

Under these circumstances, the rest of the world might co-operate as against the two monopolists in gold and proceed to form a sterling bloc as Sir Basil Blackett, Sir A. Salter and other eminent economists have been suggesting. Sir A. Salter has recommended preparations for a possible stabilisation on a commodity price index basis, working out the policy for this purpose in concert with the other countries which have gone off gold. He would however keep this policy in reserve as an alternative to that of co-operation on the part of America and France for restoring the proper working of the gold standard. The practicability and chances of success of such a policy go on increasing as the number of countries of which the currencies are linked to the sterling directly or indirectly has been growing. Virtually the whole empire is already on the sterling standard. Sir

Basil has remarked with great justice that "if by sacrificing the stability of exchange this country can be made master of its own economic destiny, not dragged at the wheels of the chariot of the Federal Reserve System of the USA or the Bank of France and can give real stability to the internal price level, the objective of a managed sterling currency system is at least one worth examining" Indeed, this is putting it rather mildly For when Mr. Keynes and other economists were urging the abandonment of the gold standard, the main argument employed against them was that most countries had a preference for gold and desired its retention as monetary standard But the policy followed by the countries having the lion's share of gold has been weaning other countries from their preference for gold Very few would now differ from the dictum of Prof L Edie (formerly of the University of Chicago) that "what the outright foes of gold failed to accomplish has been in process of accomplishment by the friends of gold" In his view the gold standard has passed away in recent years and its place has been taken by the "banker standard" under which excessive variabilities of credit have been practised under the misleading title of "automatic elasticity of credit" There is no doubt a great deal of truth in these complaints, and if indeed the shortcomings which the gold standard has been developing of late cannot be removed, the alternative of a sterling standard deserves every consideration

There are several advantages which might be gained by the successful adoption of this plan In the first place, by the skilful adoption of a suitable price level not only would the possibility of a decline of prices be obviated, but trade competition could be so sharpened against the remaining gold standard countries that imports into them might be increased and balances of trade be rendered less abnormal But, further, once a number of countries learn to co-operate closely in currency matters, that co-operation might be extended in its scope and might include the various aspects of common regulation of production, marketing and tariffs The international management of the Sterling Standard will also serve as a most valuable apprenticeship in the art of currency management in general—one of the main lessons being the regulation of credit and

currency according to the rate of increase of normal production. Incidentally, Great Britain as the head of Sterling *bloc* would regain her prestige as the great financial centre and her former initiative in monetary matters. It is an encouraging sign that the Sterling has been fluctuating in value less than gold. But is it not also a proof of the mismanagement of the Gold Standard?

In his recent work on the "Gold Standard and its Future," Prof T. E. Gregory has pointed out the weaker aspects of the Sterling *bloc* idea regarded as a permanent policy. He has shown that the monetary interests of the different parts of the Empire are by no means identical, and further that the creation of a currency union with Scandinavia would not add very much to the Economic strength of the sterling *bloc*. On the other hand, it is permissible to point out that the movement away from the Gold Standard is gathering force, that the countries going off that standard would scarcely like the idea of complete isolation as regards monetary policy, and that the monetary policy of the United Kingdom is such as may well inspire general confidence, so that other countries might do worse than join forces. As regards the duration of the Sterling *bloc*, that depends upon quite a number of other factors—upon the time within which a redistribution of gold is secured, upon the readiness of the countries possessing the lion's share of gold to restore the conditions facilitating a smooth working of the Gold Standard, and also upon the adequacy of the monetary stock of gold, even when so redistributed, to serve as the basis of a price level adapted to the needs of the period following the Depression. Finally, we note that the hesitation to accept a managed standard has been steadily undermined with every monetary development in the post-war period, and that the climax of this development has come with so many countries going off the Gold Standard.

IMPROVEMENT OF THE CURRENCY SYSTEM

In any event however—whether the problem of the maldistribution of gold is happily solved by means of a wise policy of international loans, or not—the world has to undertake the task of improving its monetary standard and of evolving a policy of banking

co-operation as a condition precedent. For it cannot be emphasised too strongly that the present depression might be said to have surprised the world and taken it unawares during a period of transition during which we were slowly pressing towards the ideal monetary standard and were attempting to solve the problem of international management of currency. The problem of this evolution has been occupying the world's energies for some decades. Thus the development of the Gold Exchange Standard, in which India took such a leading part, constituted but an early phase of that work. The recommendations of the Genoa Conference pointed the way to a further approach to the solution, and had these suggestions been carried out wholeheartedly the world would have been furnished with an important prophylactic against depressions. But far too few of the Genoa suggestions were wholeheartedly adopted, and the backslidings and hankering after by-gone ideals must bear much of the responsibility for our present troubles. However, that is the greater reason why we should expedite matters and hurry forward towards the goal pointed out to us by such experts as Mr Keynes and Sir Josiah Stamp—"a central international control of gold supplies and credit".

The Reports of and documents supplied to the Gold Delegation of the League supply us with very useful proposals for improving the working of the gold standard. These proposals are on somewhat conservative lines but therefore all the more likely to command an early and general acceptance. The scope of its Report would have been wider and its results would have been more valuable, had its terms of reference permitted it to investigate the relationship between the present economic depression and the distribution of gold. But it is obvious that the Delegation has given itself a fairly free hand and its treatment of the monetary problem has gone much beyond the question of the demand and supply of gold. Not only has the Delegation suggested purely monetary reforms but it has gone on to discuss banking principles which would, if adopted, contribute to a more efficient working of the Gold Standard. The recommendations of the Gold Delegation are very materially supplemented by the instructive memoranda

supplied to it by experts. Several of these will long retain their value as permanent contributions to monetary theory and practice; for while the unanimous reports of any delegation or committee must needs be the pale fruits of compromise, the memoranda supplied by individuals are in a different position. The recommendations of the Delegation are therefore best studied in the light of these Selected Documents. Among the best known recommendations is the reduction of the reserve ratios—a distinction being made here between the "minimum gold" cover which is required to preserve confidence in the notes and the "surplus reserve" of which the function is to meet international obligations. On this point, we might well accept Dr Trip's dictum that "the rate for reducing the actual gold cover will have to be set by mutual agreement, and exclusively with a view to the world's production and the world's demand for gold,"—it being noted that the dictum emphasises the need for international co-operation. There will be general agreements also as to the idea of gold coin not being put back into circulation.

The next recommendation of the Delegation will require more elucidation, and, as it stands, is far from giving the as clear and unmistakable guidance to the central banks as is desirable. That recommendation is to the effect that only a gold influx or efflux caused by "temporary disequilibria" might be advisedly neutralised by central banking policy. Doubts have been raised as to how far this recommendation of the Delegation is consistent with another one which is to the effect that gold efflux and influx should in general be permitted to produce their effects¹. The underlying idea seems to be that it is no part of the task of individual central banks to follow a policy which would interfere with the general distribution of gold but that they are not to be deprived of the powers of carrying out their policy of pre-war days in the matter of gold inflow or outflow taking place on the ordinary scale. A distinction might surely be made between the continuous gold inflow into the United States or France on account of war-debts or reparations and

¹ "Economist," 31st January 1930, p. 218

the ordinary movements of gold. It has also been remarked that the Delegation should have considered whether the gold standard itself has been helpful during the Depression. One who attempts a reply will of course admit that there is room for improving the gold standard as envisaged and understood at present, at the same time he will also be able to point to a number of abnormal factors which have militated against the smooth working of the standard in the post war period. Other noteworthy recommendations of the Delegation are meant to remove a defect which has crept into the working and practice of the Gold Exchange Standard of late. The Delegation has also advised the development of the bill market and the adoption or perfection of the technique of open market operations. Such operations, it must be admitted, constitute a comparatively new instrument of credit policy, and this aspect of credit policy has not yet had time to develop fully. Hence, both the extent of its influence and the proper scope and lines of its use are yet to be ascertained in the light of experience. Only one more recommendation of the Delegation might be noticed here—the one relating to the duty of the lending states to maintain an “even flow of capital.” It was obviously necessary to emphasise both on the theoretical and practical side the close relation between free international movements of capital and the smooth working of the gold standard.

Our study of the recommendations of the Gold Delegation and its documents should prepare us to envisage some of the main trends of the reform of the gold standard in the immediate future. The first feature to be emphasised is the utmost and most careful economy of gold, which is to be effected not only by avoiding the use of gold currency but also by adopting a suitable mechanism for variation of gold reserve requirements. Another measure to be adopted advisedly is the inclusion of suitable substitutes for gold as part of reserve requirement. It is further advisable to widen the interval between gold points, so that, as Mr Keynes has pointed out, central banks, will be the better able “to protect the credit structure of their own country from the repercussions of purely

temporary disturbances abroad"¹ It is obviously the task of the central banks by a wise policy to reduce the movements of gold, especially those not warranted by the condition of the exchanges Another important feature will be the effort to regulate long-period price changes Students of Prof Pignon's work on "Industrial Fluctuations" will remember his view that for individual countries there is only the option between stabilisation of prices and exchanges, but that through international co-operation a synthesis of the two aims is feasible—*i.e.*, if the central banks co-operate to limit the demand on gold and regulate prices, while steps are also taken to regulate the output of gold The Genoa resolutions gave the world a lead in the matter and urged on the central banks the advisability of giving due weight not merely to the question of reserve proportions but to that of price stabilisation

Above all, in order to work effectually, and on sound lines, the management of the improved monetary standard must be on international (better still expressed as "supernational") lines Co-operation on the monetary side of planning is as necessary as we shall find it later on the side of production To illustrate this it is necessary to point to failures of national programmes of and efforts at price stabilisation Thus after the boom of 1920—21 some countries were hit hard by attempting deflation without regard to international conditions So also those who worked the "dollar standard" assisted the process of maldistribution of gold by trying to eliminate the effects of the large influx of gold in order to stabilize the price level Then, again, as a high American authority has put it recently, "they have sanctioned that excessive short-term variability of credit volume which it was the very heart and soul of the gold standard to prevent" And all this was done in the course of national policies followed out, undoubtedly, with the best of motives Further, we have seen that only the co-operation of central banks and countries can secure a synthesis of price and exchange stabilization at the same time And as to reduction of gold movements, we know

¹ Keynes *op cit.*, vol II, pp, 325—6 and 396-398, "Select Documents of the Gold Delegation," pp 69--70

that this is possible only if movements of credit are kept in consonance in different countries

The advocates and the critics of the gold standard are alike agreed as to the advisability of a supernational management. That is clearly the advice of Mr Keynes "Provided that the world's currency system is managed with plenary wisdom by a supernational body, and provided that as a part of this scheme, gold is everywhere excluded from active circulation, then the ideal standard of value, whatever that may be, is compatible with the forms of a gold standard of value"¹ Here at least there can be no doubt that all authorities are agreed as to the necessity of international co-operation. Indeed, in a very important and new sense, problems of currency have become of an international character. To those of us who began their economic studies thirty years ago this change in the point of view seems wonderful, but then it is only symbolical of the movement towards international co-operation in the whole range of economic life.

SCOPE AND OBJECTIVES OF BANKING POLICY AS REGARDS THE PRICE LEVEL

Having tried to envisage the lines along which the monetary standard is to be developed in the immediate future, we come to the agency of working out the policy *à e*, to the work of the Central Banks, which are the controllers of credit and currency in this respect. We have, in the first instance, to examine their potentialities as well as the limitations to their powers in this respect, and in the first instance we shall examine the capacities of individual Central Banks in the matter of removing economic trouble. Here we meet with several conflicting opinions. As has been well noted, the practical bankers too often follow "the creed of negative leadership" and fight shy of responsibility. Few of them rise to the level of Sir C. Addis and argue that "we must be masters in our own house, the rulers and not the slaves of money." Only these can follow the advice of Mr Keynes and assume responsibility for following a deliberate credit policy

¹ Keynes, *op cit*, Vol II, p. 200

which would control prices through influencing the rate of investment Mr Keynes admits indeed a number of limitations on the power of the Banking system to control price level, and his final opinion is that the banks' power is real mainly in the direction of preventing depressions and that it is much less tangible when it comes to remedying depressions¹ But some of his critics would go further, and express scepticism even as regards the central banks' power to prevent depressions, on the ground that the economic and statistical methods of forecasting are yet imperfect Moreover, they add that in trying to influence some of the prices favourably the banks might adversely affect other prices Doubts are also expressed as to the effectiveness of the weapon of open market policy in bridging the gap between long and short-period rates for money²

What then can we conclude safely as regards the outcome of this controversy? In the first place, it might be observed that, as shown by the Economic history of a century and more, banking policy has tried to adapt itself avowedly to the phases of the trade cycle—a fact which necessarily implies confidence in its power to influence both investment and prices The potentialities of a stabilising discount policy are a matter on which there is little doubt Moreover the armoury of the central banks has been enriched by the other weapon of open market operations Nor can it be doubted that the short-term rate of interest, which the Central banks admittedly can influence, has some effect on the long-term rate of interest, and upon the bond-rate on investment and thus ultimately on prices

What one may inquire, are the criteria which the central banks should utilise in guiding their credit policy? On this subject also the suggestions have been numerous One set of authorities have emphasised the stabilisation of prices as the guide to banking policy, and the Macmillan Committee has given its blessings to the proposal But to this it is objected that there is an ambiguity in this prescription and that the criterion

¹ Keynes, *op cit*, Vol II, p 351

² Cf "Quarterly Journal of Economics," August, 1931

is not definite enough. For since we are in a period of rapidly declining prices which years' prices are to be accepted as the standard for stabilisation? and again, it is asked what is the objective standard or "signals" to be followed in working out the matter—whether a mere production standard, or that of the co-ordination, of production and distribution, or, on the other hand, a financial standard? Then there is the proposal of Mr Keynes that the banks should have for their aim the equalising the market rate of interest to the natural rate and that they should control the price level through co-ordination of saving and investment. To that important suggestion the criticism has been advanced that the lowering of money rates does not always induce the business community to enlarge investment. One cannot always rely on cheap money to improve business activity, for, its psychological effect, it is alleged, is counteracted by the momentum of the trade depression. More recently Prof Edie has advanced the idea of taking "the normal rate of growth of production" as a guide to the expansion of credit. But it is obvious that if in a period of stark depression like the present, the banks went on expanding credit, say, according to the suggested 3-per-cent normal expansion of production most of it would simply not be availed of and used.

So far as a practical conclusion can be aimed for immediate guidance under the present conditions, it is this that the central banks must proceed tentatively in the direction of providing cheaper money and of thus financing a trade revival. While the banks can make a beginning in this direction, the later stages of the policy will depend on the gradual response of business demand. There is no need to adopt the whole policy of "expansionists" to start with since the banks cannot control either the uses to which additional credit can be put by the business world or the psychological factors affecting the utilization. The same consideration must govern the choice of the price level to which we should aim at reverting. Provided a beginning is made in raising prices and in lowering interest rates and the course is set in that direction, further experience will alone give a clear guide to the exact criterion to be adopted for future development when we reach more normal—or rather, less

abnormal—conditions For the immediate present, the same course is prescribed by criteria like rate of production or the relations between the actual and natural rates of interest

POTENTIALITIES AND LINES OF CO-OPERATION BETWEEN CENTRAL BANKS

It goes without saying that though there is scope on the above lines for the guidance and development of monetary policy by individual central banks, the success of the policy will be rendered far more likely by *co-operation on the part of central banks*. Since the War, such co-operation has been extending and Central Banks have been learning to take counsel together. In this matter, the world is under great obligations to eminent bankers like Mr Montagu Norman, M Moreau and above all to the late Governor Strong. The growing practice of keeping balances with Central Banks in free gold markets is at once a sign and a cause of such growing co-operation. An even more important matter was the co-operation of Central Banks in the task of currency stabilisation. But the experience of the present depression has suggested much closer co-operation between Central Banks, while the establishment of the Bank for International Settlements has greatly facilitated the task. It is with such co-ordination that the task of variation of legal reserve requirements of banks can be best taken in hand so as to economise gold. Economies in clearances between foreign countries too will by themselves be important for the same object. The defects which have crept into the working of gold standard can only be removed in these ways. On similar co-operative lines can the practice of any devices which have been adopted for absorbing more than the proportional share of gold (and of neutralising the effect of such accretions of gold on prices) be discouraged. Then there is the question of the regulation of gold points and of making them more effective which can only be tackled by the co-operation of central banks. There would also be great advantage in adopting the suggestion of Mr Keynes regarding the widening of the margin between the buying and selling price of gold for banks. Encouragement has also to be given to the practice of central banks of holding

balances with each other, though the idea of treating such balances as parts of the minimum cover against demand liabilities deserves to be discouraged.

Indeed the range and sphere of banking co-operation is very wide indeed, but the greater and more remote developments of the future may be left out of sight in dealing with the problems of the day. For the full scope of the work of the Bank for International Settlements is yet to develop, nor can we ignore the difficulties in the way. It has, for instance, been pointed out that the potentialities of the co-operation of central banking are limited owing to "friction, heterogeneity, unequal development, difference in business organization and unequal sensitiveness to monetary and other factors as between different countries"¹. No doubt all this is true, and certainly such difficulties have to be faced, but the great engine of banking co-ordination and co-operation has already been installed in the shape of the Bank for International Settlements and it would be impossible to exaggerate "the highly important role which that bank can play in the sphere of steadying foreign exchanges, ameliorating flights of capital, organizing rescue parties for temporarily embarrassed situations, and in general of fostering co-operation between Central Banks with a view to minimizing the international shipments of gold." Above all it will serve as the best guide to central banks in developing and working a planned gold standard and in interpreting the rules according to which such a standard must function.

The recent pronouncements of the President of the Bank for International Settlements are of a character which encourage the high hopes entertained of that institution. The Bank is already carrying out the wider functions of regulating and stabilising the international movement of funds. It is also working at the tasks of "the transfer of capital to markets where it may be so needed either to counteract a temporary influx such as that experienced by Germany a few weeks ago, or to level out discrepancies in discount rates. It has moved funds in aid of currencies which have shown temporary weakness and assisted some countries in the organiz-

¹ Prof. Williams in "Quarterly Journals of Economics" August, 1931.

ation of discount markets. It is also contemplating the important measures for the formation of a foreign exchange settlement fund and an adjustment fund designed to prevent unnecessary movements of gold " 1

PROPOSALS FOR THE REINSTATEMENT OF SILVER

Before closing the study of the remedial programme on the monetary side some reference is necessary to the projects that have been put forward for restoring silver to its former monetary position, and, at any rate for using the world's silver resources to supplement the gold supplies, so as to raise the level of prices. Among others who have written favourably on the topic might be mentioned Sir Robert Horne, Mr J F Darling and Sir M de P Webb. In his older scheme, Mr Darling contemplated the establishment of an Empire Bank and the creation of a new unit of inter-imprial financial adjustment (the "Rex" or the "Empire Pound"). More recently he has modified and simplified the project with the result that it amounts now to using silver to supplement gold reserve of the Bank of England and to the re-opening of Indian mints to silver. Sir Montagu Webb has also ably advocated this idea. Other writers agree so far as to advocate the general supplementing of gold reserves of banks by silver 2

The practical difficulties in the way of these projects are obvious. In the first place, the whole course of development of monetary practice has been towards a managed currency, and the difficulties of such management, already great enough will be multiplied with the added complication of having to reckon with the fluctuations in the volume and value of silver. No one can deny that there is some force behind Sir Arthur Salter's remark—"is it reasonable that the world should consider changing the world currency system, not for the sake of improving that system, but in order to influence the price of silver?" The problem of the ratio of silver to gold in value will also tax the

¹ Of the summary of the speech of the President of the Bank in the Economist of 22nd November 1930

² Cf Mr Darling's book on "Monetary Leadership" and Sir M de P Webb's "The World Crisis, and The Only Way Out"

capacities of currency authorities, especially because while there are sure prospects of an increase in the production of silver, the prospects are much less favourable in the case of gold. Moreover, we have to reckon with the almost universal prejudice against the use of silver. Indeed, as is well known, the fall in the value of silver has been due not merely to the rapid increase in its production but in great measure to the large sales of silver coinage by quite a number of states. Finally, in the absence of an international agreement on the subject, the reinstatement of silver by some countries will do nothing to induce the countries which are hoarding gold at present to release it.

There can, of course, be no question that Bimetallism could be successfully restored if the world co-operated in working for it. With such International Co-operation, the difficulties even of the ratio to be fixed and also of the greater difficulties of management of the currency would disappear. But there are no signs of any general desire for such co-operation—even though its results would be obviously beneficial. The attitude not only of France but of many other countries is, to say the least, discouraging, and in the absence of a general and whole-hearted effort, any small group of countries which attempted to carry out the idea of Bimetallism would only serve as a dumping ground for the white metal. One can agree with Sir Robert Horne's statement that "alike in India, China and Persia confidence in silver has been undermined, and so long as mistrust continues we cannot expect these countries either to share fully in or to contribute towards, a trade revival." The suggestion that an International Conference on silver should be convened with a view to its re-introduction into the world's monetary system has a great deal to commend it. A less ambitious but more practical idea is that of international action for the much more limited purpose of regulation of the sales of silver—an idea which has been put forward by Sir George Schuster in India. The controversy is not with regard to the desirability of the object but as to the possibility of International Co-operation upon the subject. It is for the advocates of silver to put forward such a programme as will secure such co-operation.

In any case, the advocates of the reinstatement of silver would be well advised to be content with the more modest and practicable programme. For one thing, the problem of the price of silver is in an important sense a by-product of the problem of the Depression and the lifting of that Depression will automatically raise the price of silver. This is not to deny, either that the fall in the price of silver has reduced the purchasing power of certain nations, or that the raising of the price of silver will afford a needed stimulus. But neither can any one dispute the lesson which Economic history has taught the world so recently, for as soon as the depression of the eighties and the nineties cleared off, the demand for and the price of silver rose automatically with the increase in demand for the products of the East. So also when the tide turns in the present case and our Depression tends to terminate, the demand for the primary products produced by the Eastern countries is bound to increase, and *pari passu* the demand for silver will grow without loss of time.

POSSIBILITIES OF LOWERING THE TARIFF BARRIERS

The World Economic Conference had pointed to and emphasised the idea of solidarity of international life and of co-operative action in order to solve the tariff problem. But this co-operation can itself be achieved on various different lines. The first idea was the fixing of maximum tariff rates and their gradual lowering by international agreement. This proved an impossible task under the circumstances. Another suggestion—in which also the co-operative ideal expresses itself—consisted “in taking, not groups of commodities, but groups of countries”—*i. e.*, the method of regional agreements to be taken up and extended gradually.¹ There was also the connected idea of multilateral treaties which could lower tariffs. But here, too, the advantages have to be balanced against the disadvantages. For, while the trouble arising out of regard for third parties are evaded in multilateral treaties, there are to be faced, on the other hand, greater com-

¹ Minutes of the Second Committee of the Assembly of the League (1930), p. 20

plications of negotiating the treaties¹ But, as it happened, while the world leaders were trying to make up their mind and were hesitating between different methods of approach to the problem, the flood of depression was rising, and, as we see so often in some places when a great flood is coming on the only care of each person on the spot is to climb up the nearest tree without scrutinising too particularly its strength. So it happened in the case of the world slump. The great ideal of general co-operation for a comprehensive reduction of tariffs was abandoned while only the plan of regional preferences received a fair measure of support. Even here we are still awaiting decisive action. As regards such preferential projects one would venture to offer a few brief observations. If such a policy is carried out *within the framework of the League*, it would tend to break up the economic solidarity of that body. Consequently the agreements should be carried out only through ordinary channels of diplomacy, and, further, it is to be hoped that they are regarded as only stepping stones to the general policy of a comprehensive lowering of tariffs. Only under such conditions they can be regarded as useful remedial agencies.

What then is the policy to be followed in the immediate future as to tariffs? It is obvious that every effort should be made to carry out the policy proposed in the Report of the World Economic Conference as regards the lowering of tariffs through bilateral and multilateral treaties. Those delegates who have striven for the unconditional interpretation of the Most Favoured Nation clause, have been accused of rigidity of views. But surely the same reproach cannot be levelled against the proposals and interpretations of the Economic Committee which has drawn up its scheme with a full regard to the demands of prevailing conditions. Then, again, as to regional agreements these are not without their uses—provided always the machinery of the League is not employed to organise them. For, such regional agreements form an important recognition of the inadequacy and unsatisfactory

¹ Grotkopp, "Breaking down the Tariff Walls," pp 71—80.

character of the present *regime* of high protectionism. But what is important is that these agreements and customs unions should be actually concluded and not merely be talked about. Finally, we might get some encouragement from the thought that the direct efforts for lowering the tariffs can be materially supplemented by two other lines of work—the organisation of Consumer's Co-operation, and the formation of International Industrial Agreements.

NEED OF ORGANISING CONSUMERS

For, we may be sure that there is a good deal to be learned from the failure of the frontal attack upon the tariff position initiated by the World Economic Conference. While fully appreciating the value of the move by that Conference, we cannot help thinking that actual results would have been much greater had it been supplemented by efforts to organise consumers in different countries on co-operative lines. This was emphasised by the Indian Delegation to the Assembly of the League last year. Provided the consumers, in each country, are organised properly, they themselves will bring a very strong pressure to bear upon their Governments in order to secure a reduction of tariffs. Moreover, in this case there will be no case or even suspicion of dictation from outside. While Conferences for reduction of tariffs and multilateral treaties will be trying to break down the high walls of tariff from the outside, consumers would supplement the work energetically from the inside.

RATIONALISATION, ITS METHODS AND TRUE CHARACTER

We come now to examine the methods of remedying the structural maladjustments and lack of flexibility on the side of production. Most studies of the depression emphasise "the existence of surplus capacity and instability in manufactures" and the lack of balance between production and consumption. The general name of Rationalisation has often been given to the various methods of improvement of production, but it is preferable to use the term to cover all instrumentalities which adjust production to the movements of demand and which keep

down costs. There is no recognised definition of Rationalisation and most writers adopt that given in the Report of the World Economic Conference of 1927. By Rationalisation, the authors of the Report "understand the methods of technique and of organisation designed to secure the minimum of waste of either effort or material. It includes the scientific organisation of labour, standardisation both of material and of products and simplification of processes and improvements in the system of transport and marketing." In this formal definition—if indeed it is to be taken as one—too much importance is given to the aspect of production as such and not enough importance has been given either to distribution or to the adjustment of production to demand. These aspects of the matter were not however quite ignored and they are brought out in the resolutions which followed the laying down of the definition as well as in the discussions of the Conference. Thus, the resolutions refer to matters like "simplifying the distribution of goods," and securing greater stability to the community and "to the consumer lower prices and goods more carefully adapted to general requirements." With the addition of these features, the description of Rationalisation supplied by the Conference might be regarded as fairly complete. One of the leading ideas is that of the reduction of costs of production, and a corollary of this is the closing down of the less efficient plants.

While adopting Rationalisation in order to lower costs and to adjust production to consumption, care will have to be taken to avoid certain dangers of the movement. Thus, there is the tendency to adopt too whole-heartedly the American version of Rationalisation without considering its suitability to local conditions—a course of action which might lead to the over-development of industrial equipment. At the Conference itself, Sir Arthur Balfour and M. Pirelli spoke of the inapplicability to European conditions of all the methods adopted in the United States. Nor is this all, the Conference did not lose sight of the temporary unemployment which might be the immediate result of the introduction of Rationalisation. Here the problem is very parallel to the immediate effects of the introduction of new machinery on the volume of employment. The problem

is thus not new and the investigations and discussions should proceed on known lines

It was the merit of the Austrian Delegation to the World Conference to point out that, though usually Rationalisation implied large-scale production, yet the small producer by co-operating with others in his own position could join effectively the movement towards Rationalisation. Another Austrian representative spoke in a similarly hopeful strain about possibilities of rationalisation for the smaller states. The Conference benefited by these suggestions and inserted in its report the view that the efforts at Rationalisation should be extended to medium and small undertakings and even to individual workers and handicraftsmen. The whole of this extension of the idea of Rationalisation to small-scale production was due to the efforts and initiative of Austrian delegates to the Conference. This useful championship of the co-operation of small producers in reaching the goal of Rationalisation was very probably due as much to the peculiar conditions of Austria in the post-war period as to the presence amongst its delegates of Dr Schuller, an eminent Austrian economist.

It is also necessary to extend the idea of Rationalisation of industry from the national to the international plane. For one of the main bases of the idea of Rationalisation is the principle of comparative cost of production and that idea finds its application as well in national as in international affairs. As Mr Henry M Robinson (the delegate from U.S.A.) observed before the World Economic Conference, "Rationalisation was primarily an individual question, then technical, then national, and, finally, probably international." On the international scale—when it is reached slowly and laboriously—the localisation of branches of industries will be materially influenced by the free action of geographical division of labour. It was in this sense that "Rationalisation demanded international collaboration."¹

The recommendations show that the true development of the methods and scope of Rationalisation can be reached only after

¹ Proceedings of the World Economic Conference of 1927, Vol II, pp 134—135 and 145—146, consult also Elemer Hantos, "L'Economic Mondiale," pp 228—230

some experience and careful examination. It has been recently pointed out that in popular imagination Rationalisation is being confused with other things like amalgamations and mergers, and as Sir Josiah Stamp has told us "the passion for quotas and for output restrictions forms in many cases a national menace". He also points out that "true rationalisation proceeds on lines of comparative technical efficiency and the greatest potential good for the future". In other words, as we have seen already, something like the principle of comparative cost lies at the base of true Rationalisation. In any case we have to beware of going on with over-organisation in the name of Rationalisation.

INTERNATIONAL INDUSTRIAL AGREEMENTS OR CARTELS AS A FORM OF RATIONALISATION

In some important respects cartels might be regarded as *avant couriers* of Rationalisation on the International side. The most powerful advocacy of such international ententes has come apart from Grossmann's masterly report on them for the League and from French publicists like M. Loucheur, M. de Rousiers and M. Francois-Poncet. Thus M. Loucheur claimed that the methods of international agreements has the triple advantage of utilising private interests and initiative, and of leading at once to the better organisation of production and the lowering of tariffs¹. M. Francois-Poncet has urged that "the remedy for the crisis is to correct the operation of the machinery of production and distribution, to impose greater discipline in the matter of production and sale. That is the well-known method of agreements and cartels"². The recent report of 1931 on such Industrial Agreements issued by the section of the Economic Relations of the League also argues that such Industrial agreements are of advantage to producers through effecting a saving in cost price, by establishing an equilibrium between production and consumption and by stabilising sale prices. It is also argued that they benefit consumers by keeping prices

¹ See M. Loucheur's Preface to Dr. Guilan's *Les Problemes Douaniers Internationaux*.

² Commission of Enquiry for European Union, p. 22.

moderate and stable. As to the relation of these industrial agreements to protectionist duties they are alleged to lead to stabilisation of such duties on a moderate level. On the other hand, in the Report of the World Economic Conference of 1927, it has been argued that such agreements might possibly have adverse effects in the way of affording encouragement to monopolistic tendencies and the application of unsound business methods, they might also, it is added, check technical progress and lead to an artificial rise of prices to the detriment of consumers. In the face of such a diversity of views it is necessary to examine the main contentions advanced on either side of the matter.

Considering first the potentialities of reducing the costs of production through such agreements, they might be admitted to be considerable, in as much as they standardize production, lead to an interchange of experience between the combined firms and lower trading costs in various ways. Such economies are no doubt possible, but on two conditions—that production should be concentrated in the more efficient factories of the combine, and above all, that the *inferior factories where costs of production are heavy are closed down*—This is a question of fact, and, in some cases at least, the conclusive step of closing down the less efficient factories with higher costs has not been taken. Here is the final test to which the syndicates must submit successfully if their claims are to be upheld at the tribunal of Economics.

Then again in the process of balancing of production and consumption no doubt international industrial agreements can play a very effective part. It has been well said that these combines are bound to possess much greater knowledge of the facts of demand and supply than isolated producers can possibly have, and that they can better manipulate the supply and even the demand. Finally, they can even promote and develop new uses for commodities. On the other hand, even Grossmann has to admit that such agreements are not possible over the whole field of production, even on the manufacturing side—let alone in agriculture.

In the matter of the effects of the formation of such cartels upon the interests of the consumer, also, a balanced view is neces-

sary A great many economists (including Grossmann himself, the author of the report mentioned above) emphasise the opinion that the consumer would have no chance against such cartels. On the other hand, it has been urged that so far, in the main, these cartels have caused a stabilisation and not a rise of prices, for they have been taught by bitter experience that any attempt to raise prices never fails to bring fresh competitors into the field. Not only have they to fear the growth of such competition but they have also to take into consideration the power of organised consumers in the shape of Co-operative Stores as well as the strength of trades' associations. Industrial consumption too is seldom unorganised. In any case there is reason to forecast the development of "far-sighted price policies," as Prof Marshall put it.

As to the relation between international industrial agreements and tariff policy, there is at least a possibility that the existence of the former might help in lowering the tariffs. It can certainly be argued that much of the present-day dumping and the increase of protection which it has necessitated is due to the existence of a surplus capacity of production. If Industrial agreements reduce this excessive capacity the need for protection must be reduced¹. Similarly it can be urged that much protection is due to the disequilibrium between supply and demand, and that the advent of an equilibrating factor like the International industrial agreements would make Protection superfluous. This happy result is of course conditional upon a wise policy being followed by such agreements—a policy which must avoid a monopolistic restriction of production in order to keep up prices, and which must avoid equally the other danger of keeping alive inefficient establishments.

Our conclusion is that international agreements and syndicates possess features which may make them hopeful instruments of Rationalisation, provided that their operative and price policies are laid down on right lines, and provided also they are subjected to proper international supervision. There is much in the dictum of Prof Wiedenfeld that the future will show whether the present

¹ Guillaun, *Les Problemes Douaniers Internationaux et la Societe de Nations*, p 164, also Dr Wilhelm Grotkopp's "Breaking down the Tariff Walls," pp 81—85

distress can teach the nations the value of the tie formed by the international agreements both as between states and individual persons. They are at present essentially in an experimental stage, and it is needful to lay down guiding lines which would prevent them from inflicting any injury upon the consumer or on the worker and from aiming at an undue development of monopolistic tendencies.

The Inter-Parliamentary Union in the course of its Conference in London in 1930, recommended the regulation of such industrial agreements, and M. Munch (representing Denmark) similarly urged the need of the regulation of such cartels before the Commission of Enquiry for European Union. This regulation has to be on both national and international lines, and is not likely to be an easy task, if we judge from the success of laws meant to control trusts and combinations. Nevertheless the sooner the task of regulation and control of industrial agreements is taken in hand the better. For, as we have seen in regarding the different aspects of the problem, there are great advantages to be obtained by a proper and controlled development of such international agreements, while the dangers of an uncontrolled and unguided growth are formidable. The policy should naturally be to remove gradually the anti-social and pronounced monopolistic features, for the removal of these features is sure to bring out more and more the co-operative and co-ordinating character of these countries. It can only be noted here that M. Oualid and others have advanced projects of an organisation both on national and international lines by which the International Industrial agreements and cartels might be prevented from causing injury either to consumers or to employees. Facts like any abnormal rise of prices or lowering of wages would be reported first to the national commissions on the subject, while the experience of nations on such matters might be pooled in the International Commission dealing with the matter. Thus there is a wide field for the co-operation of nations in the utilization and regulation of such cartels and agreements.

While we are on the subject of the Rationalisation of industry, attention might be drawn to a proposal emanating from an American

source of the co-operative control of production and prices Prof R C Epstein (of the University of Buffalo), has urged in the course of a study of "Industrial Production and Price Control" that one of the chief contributing factors of the present depression is "the unbridled creation of plant capacity" His proposal amounts to this, that in particular industries the experiment might be made to organize boards "*to work co-operatively in the allocation of extensions of plant capacity*" The reason given is that "unless we control plant capacity, competitive recklessness causes discrepancies between supply and demand in certain industries to upset the rough equilibrium required between the parts of the industrial system if it is to function effectively" The project is referred to here to illustrate the growing tendency to rationalize industry on co-operative lines

CO-OPERATION AND THE PRESENT AGRICULTURAL CRISIS

So far, in the main, we have studied the prospects of Rationalisation and co-operative control on the manufacturing side, but we have now to advert to the remedial agency specially suited to the agricultural crisis The characteristics of that depression have been well studied in the valuable report of the Economic Committee of the League on the Agricultural Crisis It is in a sense the fundamental study upon the subject and has made an important contribution to it On the remedial side, it recommends the conclusion of bilateral treaties in order to abolish the system of export bounties and subsidies for agricultural products A great deal is hoped for by the authors of the report from preferential arrangements of a regional character The Committee goes on to say, "one may wonder whether it would really be chimerical for the two parties concerned—namely, the oversea countries on the one hand, and the Eastern European countries on the other, to endeavour to arrive at an understanding, permitting the former to continue to supply Europe, while at the same time enabling the latter to market the comparatively small surpluses of their production It would be seen that the two groups of producing countries might get together, consult each other and, if possible, seek

an agreement. Even some of those experts, who have maintained free-trade views, have not been against such agreement if freely concluded. Only organisation of the market can put an end to the crisis." Another line of advance suggested is the extension of international agricultural credit. The merits of co-operation as the great remedial agency to be employed are fully discussed but it is added that "this work of co-operation will take time. It will be long before it can produce decisive results."¹

One feels somewhat ungrateful when criticising the recommendations of such a report. But it would appear that a convincing case can be made out at least for a change of emphasis as regards the recommendations. It is submitted that the main remedy is the spread and complete integration of the co-operative movement, the other suggestions, even if useful, are but of supplementary value. It will be some time before a number of important preferential arrangements can materialise. Nor can such arrangements or treaties serve either as complete guides to production or adjust production to demand fully, or remedy materially the disparity of prices as between agriculture and manufactures. They can only serve as a supplementary measure as regards agricultural production. The reason is that there are definite limitations to the efficacy of state action in regulating production.

The main fact which one has to remember is that the agricultural crisis is eminently international in character and that it has international factors affecting it, for that has a most important bearing on the choice of a remedial policy. In the light of this central consideration, one can easily account for the comparative failure of the local remedies, and the smaller efficiency of regional agreements. Thus the experiment tried with such vast resources by the Federal Farm Board showed the very limited scope of a policy of stabilising prices locally, and it is an American authority (Lipman) who admitted that "the farm relief problem is world wide one." Protection, export bounties and subsidies also have not had anything like the expected results in alleviating the

¹ Economic Committee's Report on the Agricultural Crisis, Vol. I, pp 62, 66-70 & 73.

agriculturists' troubles. Nor can preferential treatment serve as the prime agency in remedying the Depression, especially as it might conceivably help some countries at the expense of other countries. A direct curtailment of production has its own difficulties, since it is particularly difficult to regulate agricultural production and there is, besides, the danger of causing a shortage of production.

What then is the main remedy for the agricultural crisis, and what should be the distinguishing characteristics of a really efficacious remedy of such a complicated disease? In the first place, it should be capable of general and world-wide application. It should be capable of raising the general standard of living and thus stimulating demand, and at the same time it should be able to reduce the costs of production of the agriculturist. It should directly reduce that increased burden of agrarian debt which has been the unhappy result of the present crisis. It must lead to a better organisation of markets, must regulate the sale of agrarian products and reduce the weight of middlemen's charges. It should be a social tonic, and should improve the *morale* of the agrarian against the danger of reckless dumping from any country which might seek thus to break the back of the system of individualistic capitalism.

As M. Michels put it at the World Conference, agriculture has to *organize itself* in order to put itself on the same footing as manufactures in the matter of adjustability to changing conditions. It is this handicap of agriculture which is at least partly responsible for the disparity from which agriculture suffers in the matter of the relative prices of agricultural and manufacturing products. But, in the case of agriculture, we cannot rely on mergers and combinations, nor even on forms of organisation imposed from above in the shape of centralised supervision and regulation by the state. Nor will bilateral treaties go to the root of the matter, being in their nature partial and palliative. For the proper regulation of agricultural trade and production, you must begin from below in the spirit of Raiffeisen. It is the co-operative structure when properly completed which alone can endow the agricultural system with the re-

quired self-consciousness, self-determination and self-regulation. That will give it the elasticity and power of adjustment to changes on the demand side which are bound to become quicker in tempo, for the world is becoming more and more dynamic both on the side of production and demand. The present depression is only the first great manifestation of that dynamic movement in the economic sphere, and in face of a future with immense potentialities of change, agriculture has to be re-organized. No international agreements between countries will, by themselves, solve the final and fundamental problem of regulation of production as well. For that we must resort to co-operation, since only when both producers and consumers are organized by co-operation and brought into touch with each other, can the regulation of production whether in the way of increase or curtailment of output be quite satisfactory. Without such an organization, a curtailment of output might cause an absolute and resultant shortage. But the case will be different when we have co-operative societies federated into national organizations of producers and consumers. Each nation must build up such parallel structures of co-operation in order to secure automatic adjustment of production to demand.

We have it on the high authority of the Economic Committee of the League that agriculture "has not sufficiently developed the commercial spirit. It is not sufficiently acquainted with the conditions governing the remunerative marketing of its products, whether on the home or foreign markets"¹. It might have been added that the problem of marketing has itself become far more difficult than ever in view of the practice of steady dumping, exports subsidies, discriminating tariffs, high export surpluses, and various sorts of state help and banking support extended in some countries to exporters. Even in the good old stationary and normal days, and in local marketing too, the farmer was much prejudiced by the absence of a co-operative structure. How much greater must be the difficulties of marketing now with all these new factors working? And what but the co-ordinated and co-operative organization of

¹ Vol I, p 61

the producer and the consumer can meet the situation? Movements towards a co-operative organization of cereal exporters have already been going on in a few countries under the stress of prevalent conditions, and there are similar efforts in some cases on the side of purchasers. But the time is coming to push the movement forward and to make it general.

The Report on the Agricultural crisis has emphasised the necessity of the extension of international agricultural credit. The object is praiseworthy, but the movement might easily intensify the prevalent depression unless the granting of such credits is guided by co-operative organization. There is the very justifiable fear that "the granting of credits by an International Company might increase the production of cereals and other agricultural products the output of which was already excessive"¹ There is all the difference between placing large credits at the disposal of the individual agriculturist, without giving him any guidance regarding their wise utilisation, and the proper distribution of such credits through co-operative channels. At least we in India have been thoroughly taught by our experience the dangers of facile credit. But then it is objected that such development of co-operation will be a matter of time. Let it be pointed out in reply that—apart from immediate palliatives—every real remedy of the depression is bound to take time. Take for example, the proposed rationalisation of industry by means of international agreements. For years these have been discussed, but so far it has not been possible to take any steps to encourage or utilise them. It will take a fairly long time to frame national and international policies for the control or the encouragement of such syndicates. So also the development of the ideal monetary standard will require much hammering out of the principles, much construction of statistical material and a great deal of gleaning of experience by the authorities controlling currencies. But even admitting that the growth of co-operation is a relatively slow matter, is there any assurance that the agricultural depression is going to terminate at a very early date? That depres-

¹ Vol I, p 71

sion is developing before our eyes and many experts are of opinion that it is likely to be with us for a fairly long time. And, further, it might easily be followed by growth of dumping from some great country which is hostile to the capitalistic economy. For here we have before us the horns of a dilemma. If the Five Year plan fails, then dumping is necessary for the very existence of its authors and workers. On the other hand, if it is successful, who can withstand the temptation to knock out the economic system of the capitalistic world enfeebled as it has been by an unprecedented war and an unheard of depression? Any way we should fortify the system by using the tonic of co-operation which alone can strengthen the agriculturists' morale in order to withstand these future dangers.

It must be admitted that so far the world has merely played or toyed with the idea of co-operation. Having discovered the merits of the co-operative system and its potentialities about the middle of the last century, it has delayed its comprehensive and full development by eight decades. Indeed the long depression of the Eighties was needed to induce many countries to give it a trial seriously. In the halcyon pre-war days the idea was pushed forward far too slowly. Even the World Economic Conference which met under the shadow of the present depression could scarcely be said to have done full justice to it. Now we have with us the Depression which will either end or mend capitalistic economy, and that economy has now to put forward its trump card—Co-operation—which combines the best features at once of Individualism and Collectivism. So far even in those countries which have come forward in the co-operative movement, the development has been uneven, the parallel and simultaneous development of distributive and consumers' co-operation is yet to come in many lands, as also the co-ordination of these two lines of activity.

WORK OF THE INTERNATIONAL COMMITTEE FOR INTER-CO-OPERATIVE RELATIONS

It is therefore that we welcome the establishment of the "International Committee for Inter-Co-operative Relations" in Geneva in 1930 under the auspices of the late M. Albert Thomas, the

head of the International Labour Organization. Its object is to promote the development of moral and economic relations between agricultural co-operation and consumers' co-operation. In order to envisage rightly the potentialities of linking up co-operative production and co-operative distribution it might be permitted to refer to a few of the lines of inquiry prosecuted by the above Committee. First might be noticed the report submitted to the Committee as to possibilities of direct and "organic" relations between agricultural co-operation and consumers' co-operation in the matter of wheat, flour and bread. The representatives of quite a number of European countries assisted in pooling experience and opinion. The question discussed was whether the two sorts of co-operative societies should work together through ordinary commercial contracts or through the establishment of say common mills or bakeries—thus joining up interests which were apparently antithetical. In the course of discussion, light was thrown upon many gaps in the co-operative development of the countries reported on. On this topic, a valuable report has been made by M. Poisson regarding a scheme for creation of a co-operative flour mill or bakery to be the joint property of distributive co-operative associations and agricultural co-operative societies for the sale of farmers' wheat. The underlying idea is that we should not be satisfied with the establishment of merely commercial relations between existing co-operative organisations on the side of producers and consumers, but should endeavour by parallel and simultaneous action to create and develop co-operative organizations which might be *organically* related with each other and even have common institutions. To take the example of the common flour mill, it might buy wheat all the year from the co-operative farmers' society at the average price of the year, charge a fixed grinding fee and then divide the surplus profit which it makes between producers of wheat and consumers of bread. Similarly a good deal of work was done on the co-operative exportation and importation of eggs in the case of Czechoslovakia, Germany and other countries—the idea here also being to bring productive and consuming co-operative societies into international contact. A plan is now being arranged with the

conjoint assistance of the International Commission of Agriculture and the International Co-operative Alliance and the International wholesale stores to bring the producers and consumers together on international lines

Mention has also to be made of the efforts which have been made during the post-war epoch in Hungary to establish relations between agricultural co-operators on the one hand and urban consumers on the other, as regards the trade in cereals, eggs and dairy products in general. Here the initiative has been taken by the "Futura" which is the big commercial organ of central co-operative societies in Hungary. The consuming side is represented among others by the famous society called the "Hangya" as well as by the central distributive store for public servants. The foreign trade carried on by the "Futura" is also in great part worked through co-operative agencies, especially by distributive stores and societies in Austria, Czechoslovakia, Germany, Belgium, Switzerland, Italy and France. The work of the "Futura" marks indeed a notable advance. Roumania too has entered the field, at least on national lines, and its co-operative organisation is busy forming liens between rural centres and societies for production and sale of agricultural products, and consumers' co-operative societies formed in towns and villages. The task of such co-operative exchanges is facilitated by the existence of the "Centrale Co-operative d' Importation et d' Exportation" and the Central Co-operative Bank. The former possesses the importance of forming the point of contact between the opposed organs of co-operative distribution and production. It forms a guarantee for the transactions, and assists from its neutral position in the conclusion of the bargains, besides helping in their financing. In other countries too, great efforts are being made for developing international as well as national co-operation. Thus, in England the C W S (English Co-operative Wholesale Society) acts in close connection with numerous agricultural societies of producers. Hence, it might be said that in England co-operative producers and consumers are coming into close touch and are educating and helping as well as encouraging each other. But, what is of even more importance, is the number of

overseas co-operative societies of producers who are in touch with the C.W.S. The case of New Zealand Produce Association is a special one, but the C.W.S. is directly in touch with producers in Denmark, the Channel Isles, Canada, Spain, France, etc. By the year 1920, the idea of bringing the C.W.S. in direct contact with co-operative producers in New Zealand was formed. These producers of New Zealand are represented by the New Zealand Producers' Co-operative Marketing Association, and an enormous trade is being carried on truly co-operative lines.

It is on such lines that agriculture will work out its salvation by co-operative methods. The task is well begun, and thanks to various bodies like the International Committee of Interco-operative Relations, it will be pursued energetically. India has so far been one of the countries in the van of co-operative progress, but there is room to join the new move for the co-ordination of distributive and productive co-operation which can do so much to mitigate the agricultural depression which otherwise might become chronic.

THE DEPRESSION IN INDIA

We in India too must borrow a leaf from this great volume of co-operative progress as a remedial factor, for we too have had our full share of the "Economic blizzard". Most features of the world Depression have been reflected here. Thus we see a rise in production—mostly on the industrial and mineral side—though even on the agricultural side in some directions our production exceeded effective demand and was characterised by its usual inelasticity. Coming to the price aspect of the Depression there, too, the change has been enormous and the prices of export staples have fallen between the years 1929 and 1931 by 50 per cent in case of raw jute, 49 per cent in case of oil seeds and 47 per cent in case of wheat to 35 per cent in case of rice¹. In an important article on the subject Prof Muranjan has observed that "the fall in prices in India has been brought about by the growth of output and business on the one hand, and the decrease in the rate of expansion of

¹ "Review of the Trade of India," 1930-31, p. 7

currency and the violent fall in its velocity on the other"¹ The undoubted utility of this dictum would have been enhanced by pointing out that the very heavy fall of prices was also a causative factor in its turn, and was reducing the demand for currency as is shown by the heavy seasonal returns of rupees Another aspect of price movement in India—where also a close parallelism with world conditions is traceable—is the divergence between the prices of primary articles and of manufactured products Mr H A F Lindsay has made continuous and important studies of this aspect and has shown that the index numbers for the two kinds of products stood farthest apart in India during the period 1923-24, approached closest in 1928-29 and have again diverged Another matter as to which a parallelism between the World conditions and the state of affairs in India might be safely presumed is the falling off of savings and investment, and yet on this subject the Indian figures can only be conjectural, in view of the many abnormal influences adversely affecting investment at home and encouraging investment abroad The other main aspect of the Depression with reference to this country which we can notice here is the alteration of the balance of trade A glance at Statement II of the Report of the Controller of Currency for 1930-31 shows the fall of the total favourable visible balance of trade from 53 crores in 1928—29 and 1929—30 to 38 crores in 1930—31, though it must be noted that the figures for the former two years were exceptionally high and the average for the pre-war quinquennium was 42 crores Another remarkable feature of our recent balance of trade consists of the large amount of remittances on private account for investment purposes The flight of capital was alarming enough, though it was interpreted by some as a sign that India was becoming a creditor-country But, with a change in currency conditions, the alarm has abated and the flight has become much less serious

¹Proceedings of the Fifteenth Conference of the Indian Economic Association, p 295

POTENTIALITIES OF THE DEVELOPMENT OF CO-OPERATION
IN INDIA

While not denying the merit of other remedies, we can see that, had we put our full strength into the development of Co-operation in India much could have been done to mitigate the evils of the Depression to the agriculturist class, and through the increase of its consuming power to the community in general. It is significant of the importance of the co-operative policy that the Economic Depression Inquiry Committee set up last year by the Government of Madras emphasised the potentialities of remedies on the co-operative line. The Committee did well to mention the value of co-operative supply and sale as well as of credit. For the fact is that although we have made a great drive forward in Credit co-operation we have failed to see that the distributive, productive and credit forms and aspects of co-operation are mutually complementary and add to each other's strength and solidity. It would have been well to use credit societies as the bases of sale and purchase societies and to organise co-operative purchase and sale unions. For until there is a parallel development of co-operative production and distribution, one cannot employ the co-operative method and agency for regulation of production and prices and for giving them greater stability. Throughout the world, the present crisis is "a crisis of disorganisation, a crisis in respect of the sale of agricultural products."

In fact, the opinion in co-operative circles in this country has already been moving towards the necessity of this harmonious development. Let us quote from the very important and recent work on "Co-operation in Bombay" by Prof H L Kaji "It must not be forgotten further that in the economic organisation of society, Distribution is as important as, if not more than, production. If Raiffeisen Banks attempt to help the agriculturist producers and if Schulze-Delitzsch and Luzzati Banks, the urban artisan, trader and other small producer, the Store recasts the distributive system effectually and *organises the society from the other end, that of consumers*

Whether it is consumption for production or consumption

for existence, *the store movement really is the instrument of organising, and remodelling the whole system of supply*" It might be added that, as we have seen, throughout the world during the post-war epoch the lesson has been learned of parallel and co-ordinated development of Co-operation. We in India should also take that lesson to heart. For it is only a fully-developed system of Co-operation—one which is fully integrated as well as diversified—that can be of substantial assistance to India at periods of such great maladjustments. Unfortunately, for various reasons, the problem of the successful management of Co-operative stores has been found to be particularly difficult in India. On the Bombay side, a great experiment was tried during the war time. Besides the large number of stores which were started, there was an attempt at organizing a Wholesale Society. But the attempt failed very soon in spite of the activity of a special Assistant Registrar for Purchase and Sale who was appointed to assist it. In other parts of India, too, there have been numerous examples of failures of stores.

But the problem of Consumers' Co-operation in India though difficult to solve is by no means impossible to solve. Already a decade ago Dr Slater, a zealous co-operator, had put forward a series of valuable suggestions which might have been adopted with advantage. Prof Kaji and Mr R N Mehta (Manager, Provincial Co-operative Bank, Bombay) have also put forward sound and useful suggestions based on their wide experience. These gentlemen have, for example, emphasised the need of simultaneous inauguration of a Wholesale Society and of a number of affiliated retail stores in each province. These two agencies would supplement each other, for the stores would give custom to the Wholesale, while the latter would help to finance the former and to keep them from falling under outside control. In any case, we have reason for high hope looking at the success achieved at least in normal times on Bengal side, by our jute sale organisation and Nowgong societies for production and sale of the *ganyu*.

This is not to deny the claims or the utility of other lines of co-operative development in our country. Co-operation will no

doubt contribute much, for example, to a sober and steady progress of the Labour Movement on right lines. We have to profit alike from the drawbacks and the excesses of the Labour Movement in other lands. We have to exert ourselves to the utmost to meet the just claims of labour and to assist it to develop its skill and capacities and to get rid of that incubus of debt which is piling up here by a process parallel to that on the agricultural side. In no country, again, are the prospects of the small producer and industrialist better worth improving than in India, and this task can be achieved through the instrumentality of co-operation. It is an unhealthy and unsound procedure to hand over production mainly or solely to giant businesses, and here, too, the redemption of our industrial system and its spread over the country might be with co-operative enterprise. In that respect our task in India is easier, for, while in the advanced industrial countries great and developed schemes of production and distribution have to be repaired in the light of experience of depressions, crises and class-antagonisms, we in India are yet in the initial stages of such development and can lay down better lines of evolution, thus saving much waste and duplication of effort.

VALUE OF INDIA'S FINANCIAL CO-OPERATION TO THE WORLD

But if on the side of Co-operation on the national plane India is still mustering her full strength, on the side of international co-operation she has made a signal display of her power. The exports of gold amounting to about 56 crores has not only stopped the flight from the rupee and sustained her own exchange, balance of trade and public finance but has also assisted the world materially in the matter of business stabilisation. The paying up of Indian loans has been a factor not only in the improvement of Indian finance, but in setting money free in the great centre of world finance and has enabled that centre to meet her foreign short-term loans. Not that countries like Great Britain did not contribute of their gold, nor did we in India proceed so far as to melt down coronets and swords of honour. But it might be asserted that the material as well as the psychological value of the Indian contribution was the greater. For

what had been utterly unexpected had happened, and the mysterious 'wealth of Ormus and of Ind' was becoming at last a factor to be reckoned with on the supply side of the monetary situation. It was indeed a brilliant display of the great financial power of India. While some countries with the most advanced forms of banking have been sterilising and virtually hoarding gold, it was left for the country which had been reputed 'the sink of the world's gold' to come forward to help the world in her direst need. We need not however draw the unduly optimistic inference from this that India can suddenly transform herself into a creditor-country.¹ Economic history teaches us how great the difficulties are in the way of such a sudden transformation. Take the case of a country like the United States, exceptionally endowed by nature and possessed with unequalled talents, too, for pushing these advantages, and yet Prof Taussig—an authority second to none—confesses himself surprised that even after some decades of unprecedented increase of resources America was able to become a creditor country during the war-period. "The remarkable thing is that the later transitions, involving the shift from an established borrowers' position to the position of an established leader, should be compressed within less than a single decade"². Thus we find that an eminent economic authority is left wondering that even the last phase of the transformation to the position of a creditor country was achieved by the United States within a decade, in spite of its vast and constantly expanding savings and the destruction of capital in Europe. Moreover, Prof Taussig was right in adding that "quite possibly the eventual outcome will prove to be less revolutionary than these first experiences seem to indicate". For America has proved to be a shy and fitful creditor at the best. Turning from this great example to Indian conditions, no one can seriously assert that Indian savings have been growing at anything like a very rapid pace or anything comparable to the American precedent. Nor can we doubt, on the other hand, that in the near

¹ Reference might be made to a very instructive article on this subject by Mr Ramchandra Rau in "Indian Journal of Economics," January 1932

² Taussig, "International Trade," pp 327—339

future the demand for capital for the development of Indian industrialism and for the rationalization of agriculture will far exceed anything that we can save up in India for decades to come. Nor can we depend—as banking conditions are at present—on putting forth much more of our gold, for it is the one luxury of, as well as the bank for holding the last reserves of a large portion of our population. Only a great change in our banking system as well as in our social conditions and in our standard of living, can mobilize and make available much more of our gold. It is only as the general standard of living improves in India and includes many more objects of luxury, distinction and social prestige, that gold can be turned mainly to its monetary use. We cannot safely draw inferences from what has happened under unprecedented conditions of great distress to the potentialities of normal times.

Nevertheless, the monetary power shown by India recently might well fill us with high hopes, and assure us that a new and brilliant chapter in the monetary history of India could be opened, even with our present resources, could we but start an adequate banking system with an efficient and well-planned Reserve Bank at its head. With the growth of the banking habit, our savings can increase rapidly, for the Indian is thrifty to a fault. Only, at present, on account of the want of a proper banking system a great deal of our savings never mature into investments. One can also well imagine the value of a Central Bank in mobilising our gold supplies and in regulating not only their ingress and egress but their full utilisation and employment. The relief afforded by the present gold exports from India to the world is only a sample of the vast financial power into which India can develop in time. While then, on the one hand, it is our duty to start a Central Bank on the best precedents and principles, so as to invite the confidence of the world, it is also the duty of those countries which are in a position to help in the matter to co-operate with us, so that our Central Bank should start with the necessary gold reserves.

RECIPROCITY AND PREFERENTIAL AGREEMENTS AS METHODS
OF INTERNATIONAL CO-OPERATION

Perhaps in conclusion, it might be permissible to refer to a recent article in the "Times" by the present writer upon the potentialities of commercial reciprocity between countries like India and Great Britain, and to develop the subject a little further. During the course of the present Depression, the remedial potentialities of agreements for reciprocal commercial advantages between countries have been repeatedly indicated. The Indian Delegation has opposed the conclusion of such agreements *through the instrumentality of the League*, since the objects of the League must be of a universal character and it should not be made the agency for striking private bargains. But given the proper conditions of reciprocity and the suitable *modus operandi*, there can be no denying their value. These conditions are that the chief lines of production in the two countries concerned should be more of a complementary than of a competitive character, that the reciprocal demand for each other's goods must be strong and urgent, and, generally speaking, that the two countries should not be in the same stage of evolution of capitalism and business enterprise. Freedom of bargaining power and advantage to be secured for both sides are also to be postulated. It is on these grounds that the agricultural countries of Western Europe are seeking Reciprocity with those of Western Europe. No doubt the constant efforts to realise regional agreements in the case of Central Europe must bear fruit. But there is scope for Reciprocity in many other directions. For example, in a wide area like the British Empire there must be some parts which are in a position to practise reciprocity to mutual advantage.

The case for Reciprocity within the Empire was however prejudiced and its realisation was delayed by the movement for Imperial Preference, which implied only one-sided gains. Consequently, Indian opinion including in this case official opinion—was entirely against the idea. From the days of Lord Curzon's minute in 1903 to those of the Fiscal Commission's Report the trend of opinion was uniform that India has very little to gain

in return, and that she has a great deal to lose or risk by adopting a policy of Preference. Under the circumstances then existing, no one could quarrel with that dictum, since Great Britain was then a free-trade country and had nothing to offer us as a *quid pro quo*. Her whole attitude then was indeed the antithesis of her present one. The present position of opinion in the United Kingdom in the matter has been thus defined recently by the Secretary of State for the Colonies (Sir P. Cunliffe Lister): "There is another kind of business deal the kind that is becoming, I am glad to say, more common to-day, where people may be competitors, but in a way wherein there is a community of interests. The real business deal that 'comes off' to-day and lasts, is the business deal where the principals sit down as partners meaning to get the best out of the deal because they have a common interest to serve, where they can talk frankly about their own economic and political difficulties"¹. This pronouncement is as important as it is authoritative, in as much as it marks the evolution and transition from Preference to Reciprocity—an evolution which has taken a quarter of a century in time, and has required a radical change in the economic condition of the Empire as its condition precedent.

As we have seen, the idea of Imperial Preference found no favour in India, but a very different treatment has been accorded, to that of Reciprocity as equal partners. If we turn up the evidence given before the Fiscal Commission, we shall discover quite a number of pronouncements from Indian economists of note very favourable to the policy of Reciprocity, and obviously no occasion could have been more suitable for producing such dicta. Thus Mr. Haikishen Lal—the well-known Punjabi banker, publicist and Minister—told the Fiscal Commission that he was for a policy of "Imperial Preference with reciprocation". So also Mr. Manu Subedar urged that "with the United Kingdom there are so many outstanding political questions to settle that the granting or withholding of favourable treatment must be part of the entire bargain which may ultimately come to be settled with them".

¹ The "Times," 16th February, 1932.

The reasons for the manifestation of such views in favour of the policy of Reciprocity are not difficult to trace. The main objection to the idea of Preference was the one-sided nature of the gain aimed at. But the general economic situation had also changed radically since the first decade of the century when Preference was a live issue. In those days, the main danger to the nascent industries of India came from British imports. But the situation has been changed radically by the steady decline of British imports into India, by the introduction of Protection both into Great Britain and in India, and by the far greater competitive strength shown in Indian markets by Japan and other foreign countries.

There has been, it might be pointed out, a parallel development in the Economic history of Great Britain and of India during the present century. The dominance of the former as a manufacturing power has been greatly weakened by the rise of manufactures in a great many other countries. Sir Josiah Stamp has put the matter with admirable clearness and brevity. "Our industrial children abroad have grown up and compete with us. We cannot for ever supply both cheap cotton goods and also cotton machinery to the East. Many of our export supremacies have thus passed"¹. But if Great Britain has been losing the power which she had held for a century as the dominant manufacturing country, something like the same development has been depriving India of the pride of place which she had held for over two thousand years as the exporter of primary products. For the scientific exploitation of the Eastern Archipelago, of South America and of Africa by European powers is bound to cut out the markets for India's raw materials. Thus Argentina is overshadowing India in the matter of linseed, and Java as regards tea. The exporting power of India as regards wheat and even in the matter of rice is being shaken, and looking to the vast areas being opened up exploited for raw materials there appears no end to this growing competition. Only recently we find Indian hemp was being cut out in Germany by the African Sisal

¹ Sir J. Stamp, "Papers on Gold and the Price Level," p. 57

If then both Great Britain and India are losing their markets, and if they are so constituted as to be the steady and suitable markets for each other's products, the need for and wisdom of resorting to a policy of Reciprocity is obvious. The ground for this has been cleared by the better defined idea of Reciprocity which is now being put forward in Great Britain.

But this is not the place to develop fully the particular theme of Reciprocity between Great Britain and India. At the same time it might be pointed out that the subject is closely allied to the main line of our treatment. For the topic of the rapid growth of production of primary materials has been and will be for a long time one of supreme interest for the world, while the problems of adjustment of markets to such increasing supply is also of vital importance from the point of view of economic equilibrium. Nevertheless, the subject was taken up here only as an illustration of the growth of Reciprocity in the world for which there is wide scope. It undoubtedly enlarges the areas of commerce and exchange. It is certainly a useful form of international co-operation, and it mitigates not only depressions but other economic dangers. While in the case of British Empire, Reciprocity is the successor to the idea of Imperial Preference, in many other parts of the world it will take the place of Economic Imperialism, for undoubtedly it is the antithesis of the old policy of Imperialism and of exploitation. The logic of events and the increasing economic solidarity of the world have effectively exploded the fallacies underlying the conception of Economic Imperialism. The policy of economic exploitation having lost its attraction and its potentialities in the light of the new ideals of equal co-operation of nations, some other policy is required to take its place, and the notion of Reciprocity is the natural heir to that of Economic Imperialism. We might anticipate that it is under the expanding *regime* of this policy of Reciprocity that the economically advanced countries will assist in future the systematic, timely and expeditious progress of less-developed lands. The potentialities and even anticipations of the spread of such Reciprocity are not hard to find. Thus, if Chinese Economists like Dr Tsung-yu-Sze are, on

the one hand, announcing that "it is not China's wish to refuse foreign co-operation" in economic matters, we find, on the other hand, American Economists like Culbertson and Buell discussing the lines on which the supply of foreign capital could be placed at the disposal of China. In fact, the present generation might be congratulated on witnessing the last phases of the policy of Economic Imperialism which has dominated the world for untold centuries, as well as on seeing the rise and development of the wise and mutually beneficial policy of International Reciprocity. It need scarcely be added that the record of Economic Imperialism was that of one-sided exploitation, in many cases, while the notion of Reciprocity is essentially based upon the principle of International Co-operation. When we consider the importance of the movements like the Warsaw Conference, the work going on for securing an economic bloc of the Danubian countries, the strivings after a Customs union of Europe and the expectations entertained of the Ottawa Conference, we feel that the world is entering upon a new era of Reciprocity.

There can be no doubt that we are about to witness a considerable extension of the policy of Reciprocity. The last quinquennium alone has produced several projects and projects of that nature in Europe. The scheme of a customs Union of Europe has been exercising a great fascination on so many minds, but there are difficulties in the way of the economic consolidation of Europe as a whole, even in spite of the Locarno agreements and their salutary influence. In any case even, if such a project succeeds in future, it will be introduced only gradually and by stages. As Prof Elemer Hantos has remarked there will be successive stages of any such unification of Europe and it will be necessary to begin with groups of countries which are dependent upon each other economically and geographically. M Briand's scheme for a European Union was admirably presented in general features, but that great statesman lacked the gift of working out practical details. In the hands of the Commission of Enquiry on European Union, the project has become somewhat anæmic. The next project for a system of preferences was formed at Warsaw in 1930. It would

have had a better chance of success had not an attempt been made to implement it through the League of Nations. Such an attempt was bound to fail since the League's line of work must be universal and not regional. But the economic factors making for regional and preferential agreements are so strong that a new attempt is being made to form something approaching a Customs Union of the five Danubian States—Austria, Hungary, Rumania, Jugoslavia and Czechoslovakia. The project is meant to undo the fragmentation of the Austrian Empire, to lower tariff barriers and to supply a remedy against the great agricultural depression. The main difficulty seems to be that several of the states which desire to enter the Danubian Union, have Most Favoured Nation treaties with outside states, and these states would share any preferences which would be granted within the future Unions. Attempts are being made to induce these outside states to waive their rights under such treaties. In any case, we might feel pretty sure that eventually some sort of preferential system will materialise—so great is the need felt for it. Needless to say that the economic value of such agreements for Reciprocity or preference is smaller than that of a general Economic disarmament and an all-round lowering of tariff barriers. Nevertheless such multilateral agreements of a preferential character are to be welcomed as steps leading towards general agreements for lowering tariffs and as indications of the growth of International Co-operation.

Anything like a general survey of the Economic conditions and trends of the day must impress the mind of the observer with one lesson—that we are approaching one of the great turning points of the Economic History of the world. The benefits and advantages of the competitive aspects of Economics have been emphasised—even perhaps over-emphasised during the past two or three centuries, and competition has tended to be the guiding principle in the Economic life alike of individuals and of nations. But the dominance of that guiding principle began to be shaken by the end of the last century when we began to speak with enthusiasm of the imminent transition “from Individualism to Collectivism.” The first three decades of this century has given us a new slogan—that of the “planned

economy"—planned both in relation to individuals in a country and to the nations of the world. But planned economy can be the objective result of various economic principles—of Socialism, of Communism or of Co-operation. Here lies the choice of principles before the world, and the result can be foreseen with tolerable clearness. Few nations are prepared to abandon the competitive principle with all its undoubted advantages completely—to break with it (and with past historical evolution) altogether, and to rush to the opposite extreme of submerging the individual existence of man entirely into the sea of mass—perhaps crowd-action. We want to combine the best results of both principles of Individualism and of Collectivism. We cannot afford the excesses either of the "Libertarians" or of the "Compulsarians"—as the two opposite schools have been termed by Prof. Carver. We can deplore the evils of Individualism and of the present system of capitalistic and competitive economy, but we cannot, with advantage, undo the evolution of recent centuries. The wastes of competition even in normal times—the still greater wastes of the business cycle—we frankly and freely admit, but even the recognition of these cannot make us ignore the still more dangerous or repulsive aspects of Socialism—let alone of Communism.

Were we to adopt the alternative of Socialism, we should be getting rid of a mighty engine of progress—the institution of private property. We cannot afford to lose such a great economic stimulus. Nor, on the other hand, can we allow the institution of property to be made the instrument of social injustice. It is under a regime of Co-operation that the institution of property is secured while the use of property by the individual is controlled by the organisation of producers on the one hand and of consumers on the other.

It is well to be clear about the nature and potentialities of Socialism as well as about its limitations. There can be no doubt that the Economic functions of the state will and might experience an extension in some directions with advantage. But such extension must leave ample scope for the enterprise and initiative of the individual and also of the co-operative group on the one hand. Nor,

on the other hand, should such extension stand in the way of the growth of Economic Internationalism. The extension of state activity must needs be supplemented by such group action within the state on co-operative lines, for the whole community is too large a body to function efficiently as a single economic unit of conscious organization, while the best form of the functioning of smaller groups within the state is that of co-operative organization. In fact both on the political and on the economic side the range of the activity of the state must be limited by the necessity of giving their due to group activity on the one hand and to Internationalism on the other.

Economists are coming to the conclusion that neither Individualism nor Socialism, as conceived at present, can yield either maximum efficiency in production or maximum welfare as regards consumption. Thus Mr. Keynes has told us that what he calls "the true Socialism of the future will emerge from an endless variety of experiments directed towards discovering the respective appropriate spheres of the Individual and the Social." So also Mr. Hobson in company with many other Economists believes that the problem of Socialism *vs* Individualism turns upon the problem of incentives, and that we cannot, in the light of this fundamental fact, assert that the choice lies solely between Socialism and Individualism. If then it is a question of proper incentives and stimuli in the matter of production and distribution, few will dispute the efficiency of Co-operation in this respect. Obviously that *de facto* Co-operation and profit-and-loss sharing which prevails so widely in the world as Prof. Marshall has shown, requires to be largely developed.

In his valuable study of "Capitalist Enterprise and Social Progress," Mr. Maurice Dobb notices that repeated proposals were recently made as regards "super-imposing an element of conscious control on the economic anarchy of the industrial system." He asserts the need for remedying the present instability of the capitalistic system, and prophesies that "the future will see economic anarchy more and more encroached upon by forms of conscious control." While there are many kinds of conscious control (*e.g.*, the extension of the Economic functions of the state or international regulation) the best form of social control must be based on the organization of the producers

and the consumers—an organization which is best carried out on co-operative lines. It is such an organization of the smaller producers, and especially that of consumers, which alone can upset the regime of Mr Dobb's "first giant"—the great monopolist and financier, the giant *entrepreneur*.

Mr Dobb proceeds to consider various suggestions for overcoming the economic anarchy of the day. He passes under review a number of potential remedial agencies, among them the growing Labour Movement, Collectivism, "the Semi-Collectivist prescription of the neo-Liberal," and finally Communism. He envisages the views of the Distributivists and notes that while they were once held only by a few eminent members of the *Intelligensia*—like Mr Chesterton and Mr Belloc—"since the War, it has been given a political significance by the rise of peasant movements in Central Europe, whose aims seem to be of this kind. Should their attack on modern industrialism gather strength in the future this re-establishment of diffused ownership may well become a political issue with which a reckoning will have to be made." He might have added that it is in this region of Europe where such "Distributivists" hold the reins of power that great advances have been made in Co-operative policy and the greatest zeal has been shown for the principles of Co-operation.

It is a piece of good fortune that while mankind is at the cross roads—contemplating the spectacle of the greatest evils that competitive economy can witness and pondering over the various methods and potentialities of "planned economy"—a lead has been given to the world by the great experiments in International economic co-operation being carried out at Geneva. International Co-operation, though begun long before our days, has become a reality during the last decade, and the Economic historian of the future will note the year of the assembling of the World Economic Conference of 1927 as the greatest landmark in the progress of International Co-operation. But the necessity of the practice of co-operation was obvious both as regards individuals and as regards nations. You cannot appeal for it in one of these spheres

without creating a demand for it in the other. Thus the World Economic Conference, though making International Co-operation its prime object, had to emphasise the importance of Distributive, Productive and Credit Co-operation as the great curative economic agent and the guiding principle behind a great deal of what has been termed "Rationalization," both in the field of agriculture and that of manufactures. Hence that field of Co-operation is also being cultivated, and here again Geneva has been a great focus of activity. Has any greater compliments been ever paid to Co-operation than this—that in the midst of the greatest Depression known to mankind Co-operation is appealed to at every turn of the long search for remedies?

Here then lies a great field of work for economists, and to do them justice they have already begun vigorous work on it. All studies of "World Economics" must need be studies in International Co-operation and we possess a large and growing number of such studies. But we are still awaiting the advent of some outstanding economist who will perform the same service for this new aspect of Economics that was rendered to Competitive Economics by Adam Smith.

The well-known phrase "from Status to Contract" justly summarises the economic task of the last few centuries. But it might be supplemented as regards future development by adding "and from Contract to direct and conscious Co-operation." The need and importance of this addition will be made clearer by a brief explanation. During the last three centuries, the economic world was busy building up a series of great competitive institutions. There was, for example, the development of *entrepreneurship* and of the power of Finance in their various forms. There was also the formation of the Wage-System and of the industrial proletariat. Corresponding to the rise of these and other competitive institutions, the science of Economics became, to a great extent, either a "Science of Prices" or "the Economics of Enterprise." The object of the policy of *Laissez faire* was to facilitate the working and the momentum of competition both upon the national and international planes. But the last few decades have witnessed a great change

both in the Economic outlook and in Economic Institutions Economic Science is becoming more and more a study of Economic welfare. On the Institutional side, we have the use of such a co-operative institution as the Bank for International Settlements in the region of finance. Further co-operative methods and institutions have found a highly favourable soil in the sphere of Money and Banking. In the world of Labour we hear more about plans of Profit-Sharing, of Co-partnership and Employee representation. One remembers Marshall's words when he spoke of progress from a *de facto* profit and loss sharing to conscious profit and loss sharing and thence to the "still higher but much more difficult level of true Co-operation". When we come to international trade and production, we are led to think of the Ottawa programme of "Complementary production" and "Empire rationalisation". Then again, we have International Industrial agreements which are obviously a means of moderating international Competition. Such a rapid development of co-operative institutions is due to the fact that a mainly competitive system left too much room for maladjustment, instability, and conflicts. It was essentially unstable not only on account of the conflicts but on account of the excesses of unregulated competition. Hence, the necessity of inaugurating a comprehensive co-operative policy. To quote again the great Cambridge economist "the world is only just beginning to be ready for the higher work of the co-operative movement, and its many different forms, may, therefore, be reasonably expected to attain a larger success in the future than in the past."

