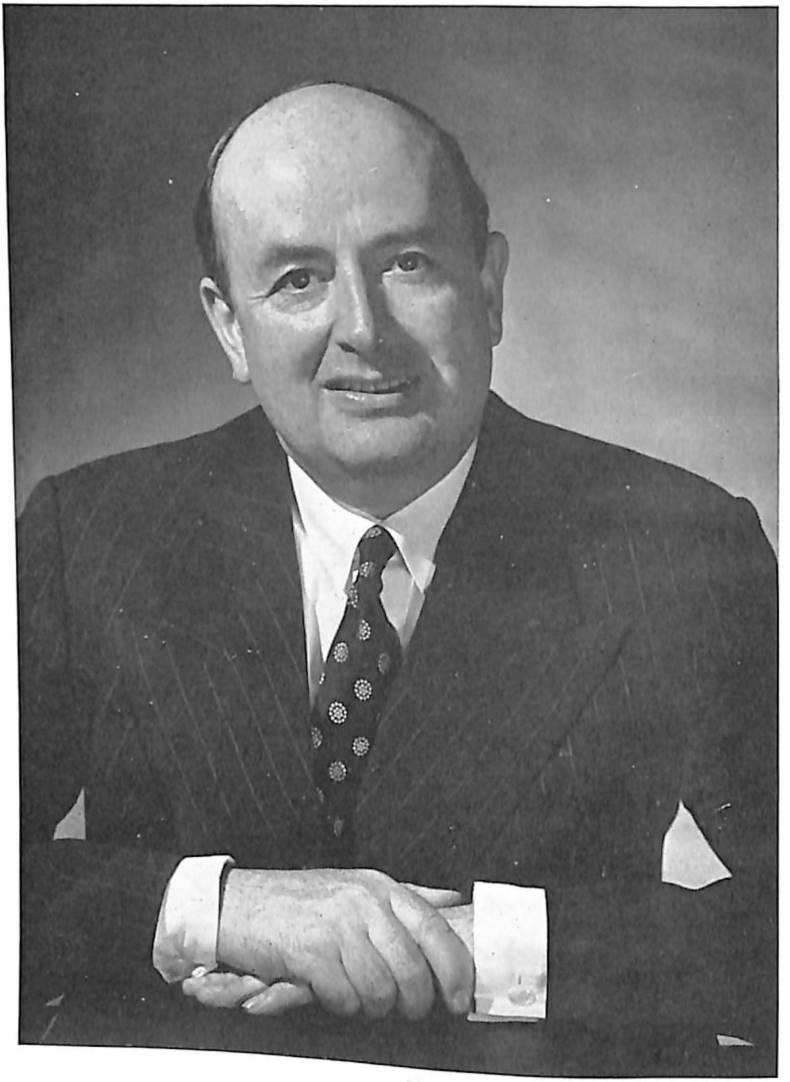
EXPANSION

or

EXPLOSION

A Solution to the Vital Problem of the Machine Age

ANTONY VICKERS



Photograph by permission of Douglas Glass

ANTONY VICKERS

ANTONY VICKERS

EXPANSION or EXPLOSION

A solution to the vital problem of the Machine Age

THE BODLEY HEAD

First published 1955.

Printed in Great Britain by
WATMOUGHS LIMITED BRADFORD YORKS
FOR JOHN LANE THE BODLEY HEAD LTD
28 Little Russell Street London W.C.1

'Also required is a supply of money in keeping with the increase in the physical volume of production and trade. Such a growing money supply is necessary to prevent the development of deflationary pressure, to maintain equity values, and to keep the purchasing power of the dollar reasonably stable.'

Extract from the Economic Report of the President of the United States of America submitted to Congress on January 28th, 1954.

CONTENTS

Preface 9

1 Civilisation at the Crossroads 13

2 Production 15

3 Consumption 21

4 Imports and Exports 27

5 Economics 33

6 Politics 47

7 Wisdom 58

8 Freedom 63

9 Supreme Disaster or Measureless Reward 69

APPENDICES

I Sir Winston Churchill's Statement on the Gold Standard 77

II We Beg to Differ 78

Some Important Statements on the Subject of Trade and Monetary Policy 83

PREFACE

FORTUNE HAS BEEN KIND to me in many ways. One of these was to be associated in the building up from nothing a generation ago of an engineering business, the products of which, despite the forebodings of many friends, are today used in practically every industry and in nearly every country. Thus, in introducing a revolutionary product so widely, the opportunity has been afforded of having some first hand contact with the economic and social influence of the machine whether in the mines, in the power stations, in the steelworks, in the docks, or in industry generally. In so doing I have found friends in all walks of life and in many countries.

Perhaps this may sound rather boastful, but then I was also most fortunate before the last war in spending a good deal of time with the late Vincent Vickers, a former Director of the Bank of England and of Vickers Ltd. His way of thinking on economic and financial matters, although not orthodox, was based on that reliable asset—common sense. For example, had he lived six generations ago, he would probably have made a convincing case as to why an iron ship would float, when all the experts would have said—what nonsense! Or, more recently, when the balloon-minded aeronautics argued so strongly that no machine heavier than air could possibly fly, he would have made a sound case for the aeroplane and pointed out that all birds are heavier than air but, nevertheless, have no difficulty in becoming airborne.

Not being an economist myself, but having an engineer's natural suspicion of the orthodox, I have given considerable thought over the years to the fundamentals of money. As a result, I am quite certain that most of the difficulties and evils of today are due to economic and financial thinking being largely 19th century, whereas production, as a result of immense strides in science and technology, is at least a century ahead. Thus, in August 1936, Vincent Vickers, in a booklet 'Finance in the Melting Pot', in a chapter entitled 'Is It Peace or War?' wrote:

> 'If only the City of London could see the inevitable necessity for change in our economic and financial system, if only our statesmen and financiers could realise the danger of delay, much might be done to avoid calamity. Is there no one with sufficient influence to appeal to financiers and bankers and to all who deal in money for the sake of money to take stock of their own position in this rapidly changing world?—not by looking at the world through their own office windows, nor by scanning the columns of their own newspapers, but rather by a closer study of human nature and the inevitable and irresistible insistence of mankind to go forward and to tread under foot or brush aside all obstacles that stand in the way of social progress.'

Just before he died in 1939, his last very splendid book, 'Economic Tribulation', which developed this theme, was published. Others have held similar opinions to Vincent Vickers but, although there is a growing measure of acceptance of these views, unhappily orthodox policies as regards economic and financial matters remain. So does economic tribulation, restriction of output, economic warfare, and the threat of another world war. I am, therefore, convinced that these evils will continue until either the third world war obliterates the present civilisation, or economic thinking is changed so as to make possible freedom, prosperity and peace for all peoples.

Why, then, does mankind apparently tread the orthodox path which leads to destruction? I suggest that a little more readiness to accept the unorthodox could make the difference between what Sir Winston Churchill described as 'Supreme Disaster' or 'Measureless Reward', and that is why I have written this book.

JUNE 1954

ACKNOWLEDGMENTS

I am greatly indebted to a number of friends, and in particular to Edward Holloway, for their assistance and encouragement, without which I would not have been able to write this book. I am also most grateful to my untiring secretary, Miss Carder, for having somehow managed to take on this additional work.

1

CIVILISATION AT THE CROSSROADS

THROUGHOUT THE AGES civilisations have come and gone, leaving little trace behind them. Right now our somewhat sickly civilisation seems to have reached a main crossroads, and mankind is faced with momentous decisions during the next few months and years. Whichever country you consider, the problems exist to a greater or lesser degree, and it is doubtful if there is any alternative to the fundamental issues of freedom or totalitarianism, to peace or war. In the case of prosperity or poverty, it could be argued that the difference is simply a matter of degree, and as long as time lasts, some countries will be richer and others poorer. On the other hand, the contrast between a nation being able to use its resources fully in peacetime or having to restrict output in one way or another, as at present, can be the difference between happiness and satisfaction or misery and injustice.

Thus, mankind has to choose which way civilisation has to go, and has little time to waste. Nor can freedom, prosperity and peace be secured by wishful thinking. Success will only be achieved by a greater recognition of the truth and a better understanding of the main factors on which modern civilisation depends. These are: —

PRODUCTION AND CONSUMPTION

ECONOMICS AND POLITICS

WISDOM AND FREEDOM.

Production is essential to sustain life, but how often do we realise that without consumption there is no purpose in production? Sound economics are essential to keep production and consumption in balance on a steadily rising basis, causing neither inflation nor deflation, whereas politics is the instrument by which a democracy governs itself. Wisdom, at all levels in the community is, perhaps, the greatest requirement of a democracy, whilst freedom, in its widest and truest sense, is in the heart of everyone.

In the past it has mattered little whether orthodox thinkers swore that the world was flat, that iron ships must inevitably sink, or that aeroplanes could not possibly fly. But if orthodox thinking should be equally mistaken concerning the fundamentals of production, consumption, international trade and money, then there are strong reasons why civilisation is sick.

It is therefore the endeavour in this book to consider these main factors from the commonsense aspect rather than being bound by orthodox thinking or blinded by prejudice. Some day truth will prevail, however hard it may be to face, and in so doing the dogmas of Left and Right will, where unsound, be shown to be false. The author trusts that this book may help to advance that day and in so doing to point a surer way to the haven where we would be.

2

PRODUCTION

THE NEED TO PRODUCE more in order to have more is beyond dispute, yet people are tiring of the continual exhortations for greater production and increased national output, especially when other nations encourage their people to do the very same thing. Thus, when Germany and Japan, to mention but two countries, raise their respective outputs and thereby increase world wealth, this is regarded as a dire threat. To the farmer and horticulturist increased production has too often been associated with unprofitable prices. In the United States, the problem of maintaining farm prices at a level which makes farming worthwhile is even now a major political issue, and in the meanwhile vast quantities of food, including a million pounds of butter a week, are being stored underground and stockpiled to prevent them reaching the market!

No wonder some sections of the community are scared of producing too much, and are somewhat suspicious of those who call for more output. Memories of working oneself out of a job still remain in many minds, as also the cut-throat competition which caused even well-run businesses to lose money, to go bankrupt or to be bought up for a song. Of course, remedies of a kind were adopted, both by capital and labour, based on restricting output in one form or another, and not only did these lower the standard of living, but the goodwill between employer and employee has been taxed beyond measure.

What, then, is the reason why larger production meets such resistance? If it is argued that this resistance does not exist, or is simply because people will no longer do a fair day's work for a fair day's pay, then it is necessary to take a look at Wall Street, the main financial hub of the world, and consider how it reacts to the possibilities of war or peace. Wall Street, of course, reflects the considered thinking of hundreds of thousands of investors and business people, and when international tension makes war look inevitable, Wall Street booms. On the other hand, when peace looks possible the market slumps. The reason for these remarkable reactions is simply because our good friends across the sea do not consider they can keep their huge and increasing productive capacity fully occupied in times of peace; only when preparing for war, waging war or during the period of shortage following a war. Thus, to the extent that they do not use their resources fully they must inevitably restrict production. Unfortunately, no other nation, including our own, has formulated a policy which will enable its fields, factories and mines to be fully used in times of peace. Hence the prime need to explore the vital matter of production more fully; that is, if war is not to be the only answer to full production, and peace the slippery slope to slump.

The ability to produce in a modern State depends, of course, on the availability—in all its varieties of manpower, materials and machinery, and one of the main purposes of machinery is to multiply man's effort and output. In recent years it is becoming recognised that the amount of horsepower behind each wage earner is an indication of his or her ability to produce, and this is rightly so when we realise that the physical energy of one horsepower is equal to that of twenty men when working an 8-hour day. In the case of a man operating a 100-horsepower bulldozer, for example, his ability to move earth or similar material from one place to another is equivalent to that of 2,000 men working with shovels and wheelbarrows.

But man's ability to multiply his effort, or increase productivity, is not confined simply to having more horsepower under his control. The modern printing press is a case in point, where the multiplication factor is as much as 40,000 times that of man's unaided effort and, in the textile industry, one girl operating a battery of knitting machines is able to knit 640,000 stitches a minute as compared with only 40 by hand. Figures can be terribly boring, but the investigation of what machine production means should not end at this point, simply because to some it makes dull reading. It is so very important to appreciate, for example, how much effort in terms of man hours is required to make a particular machine, and then, having made it, how many man hours of work can be got out of it. In other words, what is the mechanical gain?

Consider for a moment the battery of knitting machines, which requires the work of six men for one year to construct, or an expenditure of six man years. Once constructed, however, the battery will last for ten years and enables one operator to do as much as 16,000 hand knitters, or a total of 160,000 man years of work!

These facts, which are somewhat surprising at first, lead to the next point, that if the six men are steadily employed and, therefore, construct a new battery of knitting machines each year, it will be necessary for an increasing amount of knitted goods to be purchased. If this does not happen, then the output of the machines will have to be restricted, or that of the six men in terms of making such machines. This aspect of production, which is so vitally important, is nearly always overlooked or unsatisfactorily answered, and will be dealt with in the next chapter on Consumption, because the problem of the ability to buy is involved. Thus, whether we like it or not, we live in a Machine Age, and we should endeavour to understand its significance or we shall certainly become its slaves, or worse.

Broadly speaking, there are two main reasons why the economic influence of production is so poorly understood. The first, perhaps, is because some of the major changes, like the introduction of steel into industry in place of iron have been going on for a century and a half and, because of the somewhat slow process, are not realised. The second is that, generally speaking, the leaders in politics, industry and finance have had little or no technical background and, therefore, do not think of the machine as the multiplier of man's effort. Perhaps two examples will illustrate these points.

In the last 150 years, as everyone knows, steel has largely replaced iron as the principal material used in industry, but if anyone is asked what the economic influence has been they are inclined to look a little blank. If, however, due to some metallurgical miracle, every piece of steel reverted to iron, the change would be frighteningly obvious. With iron boilers every power station would have to reduce its steam pressure tremendously or the boilers would burst, and the speed of the electric generators would have to be greatly reduced, otherwise they would fly to smithereens. The electrical output would be reduced to a mere fraction and, likewise, the output of the whole country. Within a few days the pound would only be worth a few pence. It is, therefore, quite logical to say that the introduction of steel had an enormous influence on production, particularly when we bear in mind the fear of producing too much, whether it be in Wall Street or anywhere else.

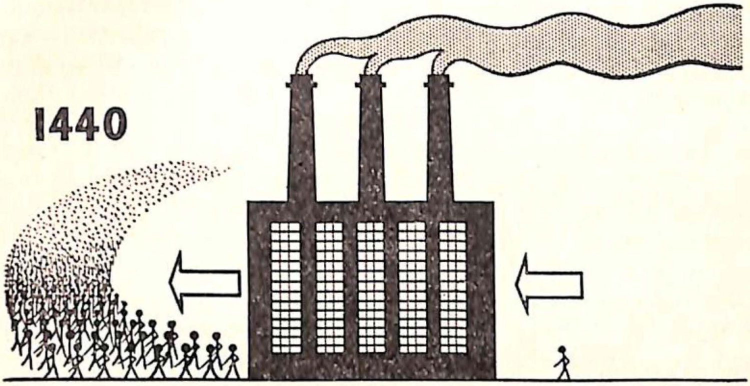
For the second example, let us consider the influence on production of a modern power station, because if ever there has been a unanimous statement made by the numerous Productivity Teams that have visited the United States in the last few years, it has been that the American wage earner has nearly three times as much electrical power behind him as his British counterpart.

To construct a modern power station of 200,000 kilowatts capacity in Britain costs about £10 million, and takes about 5 years. Such a station would consume about 2600 tons of coal a day, which is equivalent to the total output of a medium size colliery. The economic clue is given by the price at which the kilowatt hour or electrical unit is sold and, for industrial purposes, this is about 1d.

As the capital cost of the station is amortised in a given period of 20 to 25 years, the amount so charged to each kilowatt hour is known. Likewise, the cost of the coal consumed, the cost of generation and distribution, as well as the interest on the Stock. Everything is included in the 1d., which buys the labour of a man earning, say 4/- an hour, for 1¼ minutes. The kilowatt hour, however, is the equivalent in physical energy of 30 men working for an hour, or 1800 man minutes. The multiplying effect, or influence on production is, thus, the ratio of 1800 to 1¼. In other words, the effort of all those engaged in the design, construction and operation of power stations is increased by no less than 1440 times. Admittedly, quite a large proportion of the electrical energy generated is used for cooking, cleaning and lighting, as well as for transportation. But these are no longer luxuries in a modern State, they are necessities and point to the ever increasing importance of electricity, whether in the home, in the factory or elsewhere.

To some these fundamentals of production are as dull as ditch-water, to others the ancient 'pint pot' story suffices—that you only get a pint out of a pint pot.

But if we really desire to secure prosperity and peace, then we will have to be more realistic than hitherto and face up to the



factors that govern production. So long as raw materials are available, the ability to produce with modern means is staggeringly large. Furthermore, if all machines were to be effectively used, without featherbedding or slow-motion tactics, there would be a steadily increasing output, even with less hours of work, as in the United States.

Unfortunately, there are several major reasons which, up until now, have prevented national output from steadily expanding in times of peace. The main reason, as previously explained, is that no Government has formulated a policy of how this can be done. Admittedly, policies change, but it is not so long ago that a former Chairman of the Federal Reserve Board of the United States said:—

> 'The fact must be recognised that, however desirable on general principles continuous expansion of trade and industry may be, such developments must accommodate themselves to the actual supply of capital and credit available.'

Then again, referring to the period prior to World War II, the Allied Nations at the Hot Springs Conference in 1943 proclaimed that:—

> 'There has never been enough purchasing power in the hands of the people to enable them to purchase all that has been produced.'

If the capacity to produce automatically guaranteed the ability to consume, there would be no fear of recessions in the United States or elsewhere. Economic history, however, has a habit of repeating itself, unless economic policies are modernised, and it should be plain common sense that unless people are able to buy there is no purpose in producing. There are, therefore, two main conditions which influence the volume of production—the capacity to produce and the ability to buy. Both are equally important.

CONSUMPTION

PRACTICALLY EVERYONE would agree that people like to have more things rather than less or, in plain parlance, to consume more. Quite clearly, it is not possible in the long run to consume more than is produced without reducing reserves which are so essential. What seems so strange is that, despite the continual arguing for greater output, the capacity to produce has hitherto been no guarantee of the ability to consume. In the years to come, when sounder thinking prevails, our children, or maybe grandchildren, will consider this particular flaw in the economic system as the height of stupidity and will regard our intelligence as even more deficient than we regard that of our forebears who swore that iron ships would sink.

If this is not the case, then why should a great nation like the United States have more than 3½ million people economically barred at the present time from producing large quantities of goods and services? Surely it cannot be argued that our American friends are so rich that they do not want more things?[1] Certainly, in Italy, where the standard of living of the masses is much lower, it hardly makes sense to have nearly 5 million people unemployed or working short time. No wonder fears of an American recession exist and 143 Communist Deputies reflect the feelings of a number of Italians. Not only is the purchasing power of the unemployed man greatly reduced, but to all intents and purposes, he is deprived of his economic freedom, as well as the satisfaction that accompanies the feeling of being usefully employed.

[1]"The country is faced with a basic problem—that production has outrun the consumer power of the American people." Mr. Edwin Nourse, former chairman of the council of economic advisers in evidence given to a congressional committee—from The TIMES, 19 Jan., 1954-

Before the last war in Britain, when large numbers of agricultural workers were idle, and also miners, it was widely said, and readily accepted, that a nation could not prosper by its people 'taking in each other's washing'. Thus, although the agricultural workers were short of fuel, but were willing to produce food, the unemployed miners were undernourished but, nevertheless, were anxious to mine coal. How could such an unintelligent state of affairs have happened at that time, with such disastrous results, unless there was something radically wrong somewhere? It is, therefore, most necessary to spotlight, if possible, this particular flaw in the system.

Centuries ago, in the days of barter, there was little difficulty in exchanging a sack of corn for six sacks of fuel, if that was the agreed ratio for these two commodities, but when money, in its various forms, became the medium of payment or exchange, then conditions of non-exchange or unemployment could, and did, arise, bringing misery, poverty, loss of economic freedom and strife—in fact, most of the evils of modern civilisation.

Everyone knows that figures can be made to prove almost anything, but one way of determining the main cause for the inability to consume, and hence to produce, would be to put three questions to each of the unemployed and their families, as follows:—

Q.1. Well, Mr. Smith, are you and your family quite satisfied with all you have, or is there anything more you would like?	Mr. Smith would almost certainly reply: 'No, we are short of food, clothing and fuel, our savings are practically all gone and we cannot begin to think of any luxuries such as entertainment.'
Q.2. Why should you be unable to obtain these things, because all the means of producing them exist in the fields, factories and mines, where output has been restricted or curtailed, and there are many empty seats in the cinemas and theatres?	I would certainly buy these things if I had the money to do so.

Q.3. But why do you not have the necessary money?	There is only one honest way I can acquire money and that is to work for it, but when I apply at the Employment exchange or at the factory gates I am told that there is a recession taking place and no more manpower is needed.

There is little doubt that the big majority of unemployed persons would reply to the three questions as indicated, of whatever industrialised nation they were citizens. The three answers show that, although the capacity to produce existed in the idle fields, factories and mines, the ability to purchase was deficient. The clue is thus given in the second answer, which is clear evidence of insufficient purchasing power or money in circulation, and opens up a whole avenue for investigation in Chapter V on Economics. It also raises the vital question as to whether there is a physical limitation to the amount of money that should be in circulation, as was so clearly stated by a former Chairman of the Federal Reserve Board. Another question of top importance is, what should determine the right amount of money in circulation?

But before dealing with these very important economic aspects from a common-sense point of view, it may be helpful to consider the influence on consumption of the Sellers' Market and the Buyers' Market—those terms so frequently used by industrial magnates and economic writers.

In some ways it is easier to understand the significance of a Sellers' Market which is, of course, the condition of a shortage of goods and services and a surplus of money in the hands of the buyers. It almost invariably follows a war, when a large proportion of the productive capacity of the nation has been devoted for some time to war purposes and, in addition, a large amount of new money has been put into circulation. In the six years from 1939 to 1945, the amount of new money that was created and put into circulation in the United Kingdom economy was £3,221 million. Little wonder that rationing and controls had to be imposed for a time!

Then in 1950 trading conditions were about to change to a Buyers' Market, in which the supply of goods and services is greater than the market can purchase, when the Korean War and the Defence Programme absorbed a considerable proportion of the productive capacity. As the Defence Programme 'levels off' or even declines, the Buyers' Market is likely to be accentuated. Hence, the talk of a recession in the United States, increased competition in the export markets and the economic 'threat' of Germany and Japan.

So long as people talk of the Buyers' Market, its man-made stupidity needs the most thorough investigation, particularly when one reads the annual speeches of Company Chairmen, to whom one naturally looks for industrial leadership. Under such conditions these invariably state that because 'we have now entered the Buyers' Market, trading results were less satisfactory than in the previous year'. A case in point were the following two paragraphs taken from the chairman's speech in 1953 to the shareholders of one of the largest companies in the country:—

> 'As we have consistently done since the close of the war, we must continue to seek every opportunity of increasing turnover and exports, of raising productivity, of achieving greater efficiency and lower costs, and re-awakening in its widest interpretation the art of Salesmanship.'

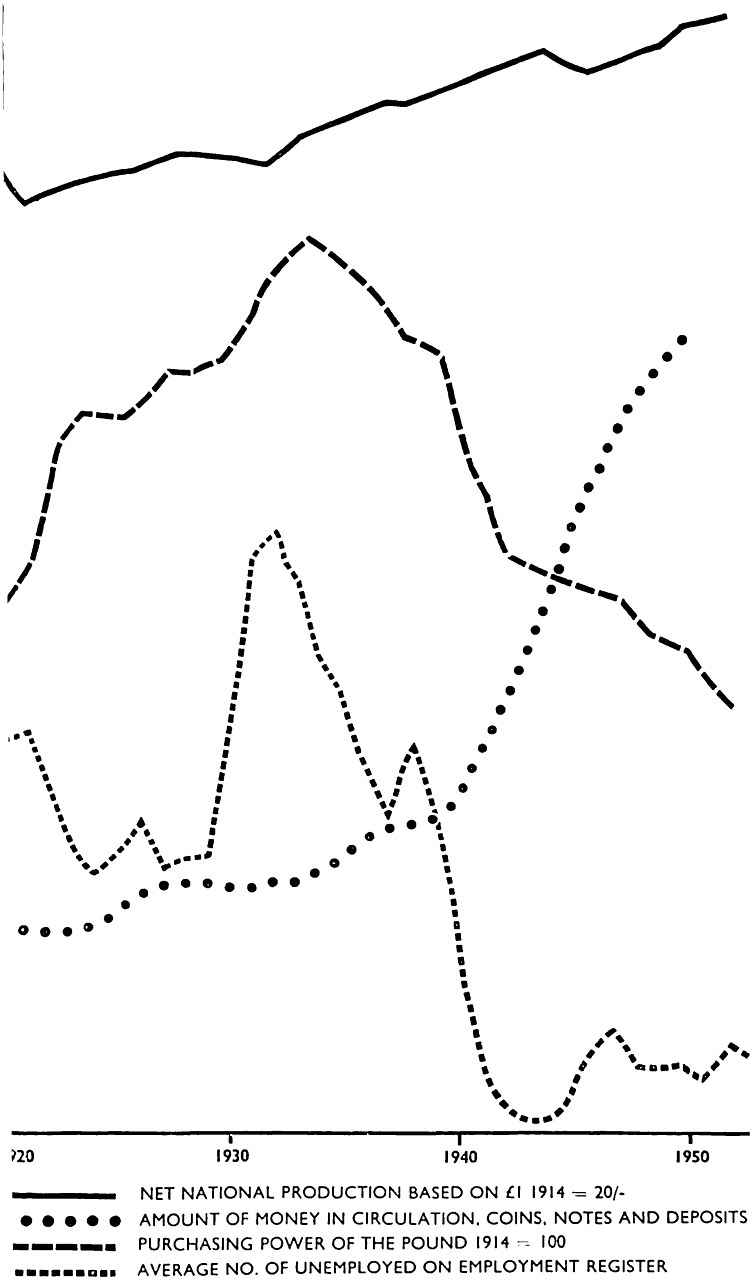
So far so good, but then comes:—

> '. . . it was clear that peak sales had been reached and therefore it was necessary to curtail output . . . Much short time was necessary for many of them with a consequent fall in their earnings.'

Even more recently, in 1954, the Chairman of another very large company said in his annual review:—

> 'The value of orders received during the year was appreciably lower than the total of deliveries. This reflected the combined effects of a falling off of enquiries owing to decreased purchasing power and intensified competition from European and other overseas manufacturers . . .'

Such statements, which are quite typical, simply mean that there is no purpose in producing more than the available demand, unless the products are to be destroyed as in the past, or stockpiled as at present, and it is just this astonishing condition that creates an 'attitude of mind' as they say, against increased productivity and production. The orthodox view is that the law of supply and demand must prevail and, if only costs and prices were lowered, more would be purchased and everything would be all right.



?20
1930
1940
1950
NET NATIONAL PRODUCTION BASED ON £1 1914 = 20/-
AMOUNT OF MONEY IN CIRCULATION, COINS, NOTES AND DEPOSITS
PURCHASING POWER OF THE POUND 1914 = 100
AVERAGE NO. OF UNEMPLOYED ON EMPLOYMENT REGISTER

FIGURE 1

There are, however, two main facts which suggest that this view is unsound. The first is that, when goods and services were cheapest in the last 35 years, namely in 1933, unemployment was at its highest and foodstuffs were actually being destroyed. The official figures are charted on the previous page. The second fact followed from the first, and resulted in both capital and labour pegging prices and wage rates and restricting their respective outputs to the available demand, even to the extent of dismantling shipyards.

Surely the right answer to the problem is to regulate the amount of purchasing power so that the rate of consumption is kept in step with production. This would mean that, in the home market, there would be neither an overall Sellers' or Buyers' Market. It would be a first step in the right direction, and would also mean the maintenance of stability in the general price level instead of the instability, as shown on the chart on the previous page. To achieve this will necessitate some consideration of the fundamentals of money in Chapter V because, as Mr. Henry Ford so clearly put it:—

> 'The present system has got us twisted into producing goods to buy dollars with when what is needed is a money system to produce dollars to buy goods with. Under the present system the tail wags the dog.'

Mr. Ford was undoubtedly one of the greatest industrialists that ever lived, though not all the financial people agreed with him. He was also, perhaps, the pioneer of mass production methods and high wages, and might even have said that without mass consumption mass production would simply create mass unemployment. What he did say about the money system was unorthodox and, therefore, was discounted. Nevertheless, the orthodox view cannot always have a monopoly of consideration but, before going into the money aspect, some thought should be given to the great influence of imports and exports.

4

IMPORTS AND EXPORTS

HISTORY WILL DOUBTLESS RECORD, judging by results, that the world has never been quite so unbalanced as in the 20th century. In no other period has technological development so greatly increased man's capacity to produce and yet never before have there been such years of destruction. At practically no time during the years of so-called peace was output not being restricted, nor economic warfare indulged in. When all is said and done, the principal impact of one nation on another—excepting by war, hot or cold—is via its imports and exports. If this seems too far fetched, consider what the Republican Senator Malone said in Washington early last year:

> ' "Trade not Aid" was a way of destroying American working men and inventors.'

Nor should there be any surprise at what the Senator said, because it is just what everyone means when they talk about the threat of Germany, Japan, or any other country, raising the wealth of the world by increasing output and exporting more to other nations. No wonder fear abounds between nations under such conditions of international trading, and not only are tariffs high, but actual restrictions and trade quotas are resorted to in self defence against economic warfare. Fear is perhaps the main breeder of suspicion and hatred.

Because of this strange unwisdom, it is more important to be sound in the fundamental purpose of imports and exports, rather than to consider the intricacies that arise from the defects in the system. In other words, we should first remove the beam and then we may see more clearly to deal with the mote.

When we are told, for example, that 'prosperity depends on exports', and that a favourable balance of trade is highly desirable, we could hardly be blamed for believing that the maximum prosperity would be obtained when everything was exported and nothing imported. Of course, if every country insisted that it should export more than it imported, it would be a physical impossibility, and yet for years the god of the favourable balance of trade has been worshipped—and still is.

Putting it another way, a favourable balance is achieved when a £500 motor car is exported and a £5 mouth organ is imported. Any schoolboy would know that this is poor business, to say the least, and yet it is just what we, and other nations, are trying to do as we parrot the slogan—prosperity depends on exports; export or die!

The term 'favourable balance of trade' was coined long years ago when Britain was virtually the workshop of the world, and it was found that other nations could no longer pay for our ever-increasing machine-made exports by their hand-produced goods. In consequence, the merchant bankers of the City of London introduced a most workable plan, whereby the foreign nations issued bonds which were subscribed for by the investors of Britain, the issuers received their rightful commissions, the manufacturers their money and the overseas nations the goods and services. Everyone was happy; there was a favourable balance of trade!

Gradually, however, other nations became industrialised, and by 1914 the value of these foreign bonds had depreciated by £4000 million. However, the signals of economic unwisdom were not recognised in 1914, and hardly any more clearly in 1939. More could be produced than was purchased; the time for destruction had come again!

Although few would wish to return to the days of barter, nevertheless it is surely more businesslike for a nation to try and get the maximum value of imports of real wealth in exchange for its exports instead of the minimum, as at present, when striving for a favourable balance of trade. Some day, however, if sounder counsels prevail, it will be realised that the main purpose of international trade is to import the necessities and luxuries desired, and the purpose of exports is to pay for them. This is diametrically opposed to existing orthodox thinking and practice, so clearly put by Senator Malone.

Needless to say, there are powerful reasons why the present procedure is practised. For example, if no nation knows how to use its resources fully in times of peace, there is bound to be a strong incentive for individual firms to strive to reach 100% of their productive capacity by capturing markets overseas. No wonder then, that when industrial nations have unused capacity to produce, and have the alternatives of cutting prices, offering export subsidies and inducements, or laying off men, economic warfare is well on the way. So it is hardly surprising that when the politicians and economic experts meet round the international conference tables the results are often as barren as the Sahara!

What, then, is the solution? Surely the economic warfare caused by the policy of striving for a favourable balance of trade will continue until some nation decides it is going to enable its own people to enjoy the fruits of their labours to the fullest extent of their productive achievement. At the same time they will decide that they are going to export, or pay the minimum, not the maximum, for their imports. Once some nation adopts such a policy its standard of living will rise so markedly that the people of other nations will clamour to follow suit. International goodwill among men can become a reality, and thereby make an immense and realistic contribution towards peace.

There is one exception to the policy of maintaining a balance between imports and exports. If a richer nation wishes to assist a poorer one, then it should seek a favourable balance with the poorer by exporting more to it than it receives from it. But it should be clearly recognised that the surplus is a genuine gift, and not a means of creating a long term debt. If the nationals of one country or, for that matter, the Government acting on their behalf, wish to invest in the development of another nation, and benefit thereby, then it is necessary, for a period, to have a surplus of exports over imports, in order to acquire the other nation's currency with which to obtain such assets. On the other hand, the richer nation may for a time forego some productive capacity for its home market in order to export the capital equipment for developing a poorer country. In due course, if it is the agreed intention to repay the capital and interest, the balance of trade will have to be reversed in order that this can be done. It should, however, be borne in mind that nations, particularly the younger ones in terms of self-government, do not regard foreign capital and its implications in quite the same way as they did a generation or more ago.

Thus, if the true purpose of imports and exports is to enable nations to trade with each other to mutual advantage with the minimum restrictions, rather than to be forced into economic warfare and the 'capturing of markets,' it will have to be recognised that the only way exports of goods and services can be paid for is by the receipt of imports. This, of course, is what is meant by 'Trade not Aid', but under the present rules the chances of bringing it about are as likely as asking someone not to use their umbrella when it comes on to rain. There is, of course, no valid reason why international trade cannot be acceptable to nations, provided only that the rules are altered to suit. This would involve the following changes in principle.—[1]

(1) The responsibility of accepting payment for exports would be on the exporting nation by exercising the credits made available, either directly or indirectly by the importing nation. This is simply applying to nations the same principle that applies to individuals who pay each other by cheque. Assuming only that the cheque is valid, the debtor cannot force his creditor to accept payment if the latter refuses to cash the cheque.

(2) The two governing factors in determining the volume of a nation's international trade would be the extent to which the exporters of that nation were able and willing to export, and the extent to which the importers were able and willing to import. The more deciding factor would be with the importers, because if they only wished to import a small amount of goods and services there would be no purpose in the exporters exporting a larger amount, because they would have no means of being paid. Vice versa, the amount of imports would be limited by the value of exports, unless other nations wished to make presents of their goods and services.

(3) To the extent that a smaller proportion of a nation's output was required for exports, a larger proportion would be available for raising the standard of living in its home market. At present, as previously explained, no nation uses its resources fully in peace time, and hence every nation endeavours to export its unused capacity and unemployment problem.

[1] *Dollar Gap.* The United States exported in 1951 goods to the value of $4 thousand million more than she imported. In 1952 the gap increased to $4.5 and 1953 to $4.9 thousand million.

The problem of effecting a system of international payments which would enable principles (1) and (2) to be carried out on the widest possible scale of multi-lateral trading, and with the minimum of restrictive controls, has been worked out in detail by the London Chamber of Commerce, based on its unique experience of international trade. This system was closely examined by the Federation of Chambers of Commerce of the British Empire at their Sixteenth Congress in Johannesburg in 1948, when a unanimous resolution was passed in the following terms:—

> 'Congress has closely and critically examined the London Chamber's proposals, and is satisfied that, basic and comprehensive as they are, they merit a thorough and immediate investigation at the hands of Commonwealth Governments with a view to their early adoption.'

This excellent system, which seems so logically sound, should receive the closest attention at the highest levels by the Governments of all nations. Not unnaturally, people ask whether such a system of international payments is complicated or would disrupt the existing system. The answer is in the negative in both cases, and the sooner international trade is enabled to operate satisfactorily, the better for all mankind.

Summarising the main points of this multi-lateral contra-account system, the object of which is to enable the nations of the world to trade with each other to their mutual advantage and to the maximum extent, the exporting or creditor nation would receive a terminable credit for any goods and services it sells abroad. Thus if, after a certain period, perhaps seven years, the credit had not been used, i.e. if goods or services to settle the debt had not been received as imports, the credit would be subject to a statute of limitations and be liable to cancellation. Multi-lateral trade would be arranged by setting up clearing-house machinery through which credit claims could be exchanged at fixed rates.

It is not the purpose of this book to enter into too much detail, but in view of the immense importance of smoothly flowing international trade to world peace, the working of this system is commended as being worthy of the closest study. Readers are referred to a broadcast talk which was given by the author's friend, Mr. Edward Holloway, in the series 'We Beg to Differ' which is included in the appendix, pages 77 to 83.

To those who suggest that such a system would not be acceptable to our generous friends in the U.S.A., it is only necessary to point out that they have already been responsible for introducing Mutual Aid in war, and Marshall Aid in peace. Moreover, Dr. Herbert Feis, Economic Adviser to the American Government during the war years, proposed a system, based on the same principles, in an article published in 'Foreign Affairs' in 1943.

5

ECONOMICS

OF ALL THE INVENTIONS throughout the ages there is none that has been, or is, a greater influence for good or evil than money, in whatever form. No invention is more used by the peoples of the world, and yet is less understood. No curtain has been such a barrier as the veil of mystery that screens the subject of money. Why do we use it? What forms does it take? Has it any value in itself? Where does it come from? These are some of the fundamentals concerning money which ought to be common knowledge, and yet how many people in Britain could pass an examination on them? Probably not one in a hundred!

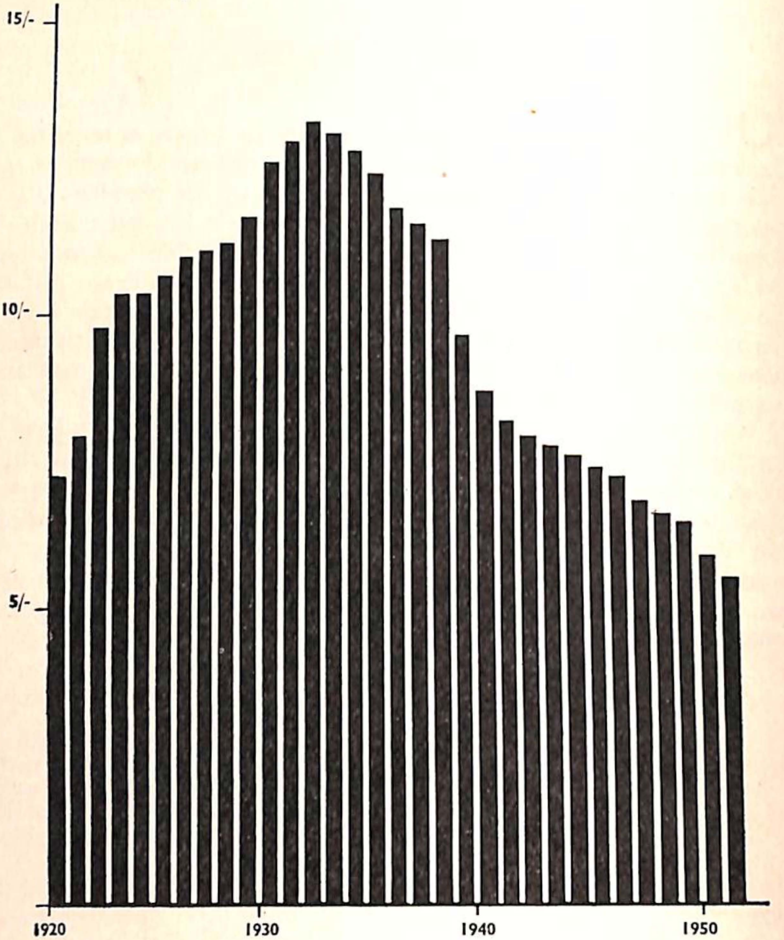
No wonder strange things can happen if one of the biggest forces in the world remains a mystery, except to the merest minority who control its creation and issue. But before endeavouring to clarify some of these fundamentals, it is worth remembering what Sir Winston Churchill said in the House of Commons when he ended his speech with particular reference to the Gold Standard in the Debate on the Budget Proposals on the 21st April, 1932:—

> [1]These are absurdities; but they are becoming dangerous and deadly absurdities. They have only to be asserted long enough, they have only to be left ungrappled with long enough, to endanger that capitalist and credit system upon which the liberties and enjoyments and prosperity, in my belief, of the vast masses depend. I therefore point to this evil and to the search for the methods of remedying it as the first, second and the third of all the problems which should command and rivet our thoughts.'

Yes, one may say, but however strongly Sir Winston expressed these views at the time, it was a long while ago, and since then vast changes have taken place. Nevertheless, as recently as December 26th, 1953, in its leading article on 'The Morality of Money', 'The Economist' said:—

[1] Quoted more fully in Appendix I.

'Why, then, do we still have economic problems, hibernating perhaps at the moment, but certain to re-emerge in the Spring? Why, particularly, do we suffer from problems that arise from an inadequacy of production, either of output in general or of particular sorts of output? It can only be because something is wrong with the motive force, the regulator, of the economy. That is money.'



PURCHASING POWER OF THE £ BASED ON 1914 = 20/-

HIGHEST UNEMPLOYMENT REACHED IN 1933 SEE CHARTS PAGE

FIGURE 2

Thus, the subject of money, in whatever form, whether in gold bar, coins, currency notes, cheques or book entry money, usually called credit, is of such vital importance that the main fundamentals should be known by everybody who is qualified to vote.

There are two main reasons why money is used. Firstly, to serve as a convenient medium of exchange or payment. How, for example, could a telephone operator conveniently exchange his or her services for the everyday requirements of life without the use of some form of money? Secondly, money is used as a measure of value. Thus, the value of practically everything we buy or sell is measured in terms of money. In consequence, the unit of money over the years should be as stable a measure as any of the other measures like the ton, the yard or even the pint pot. Unfortunately, money has failed, hitherto, in both respects. Over the years it has not proved a stable measure of value, as we all know, and this is made clear by glancing at the purchasing power of the pound from 1920 to 1952.

Although the figures are taken from the official records, no one would pretend that they are completely accurate, because the basis of compilation has been changed. Nevertheless, they show how the purchasing power of the pound has varied over the years and, furthermore, the striking fact that when the pound bought most during this period, in other words when things were cheapest, unemployment was at its worst. This was true not only in Britain but in the United States, in Canada and elsewhere.

Money has also failed as a medium of exchange, as shown in the three questions and answers which might have been put to the unemployed, as explained on pages 22 and 23. The absence of money makes it practically impossible to exchange goods and services with the inevitable result that production and consumption are correspondingly reduced and unemployment, whether hidden or otherwise, is increased.

Money, very naturally, is used in a variety of forms. In the earliest days a cow was the principal unit of money, but it requires little imagination to realise how impracticable such a unit would be under present conditions, whether one was buying a house or a postage stamp. For thousands of years gold has served as money, but it suffers from two disadvantages. It is very vulnerable to theft, as was so quickly discovered at the beginning of the Industrial Revolution, when the sending of gold by stage coach proved such an incentive to highwaymen. The problem was solved by retaining the gold in the vaults of the holder and simply sending a paper I.O.U. in suitable form. After a while, it was found that the majority of transactions could be made with the paper I.O.U.s, the gold remaining in the safety of the vaults. Confidence in this system increased to the extent that the value of the I.O.U.s in circulation, which of course carried interest, greatly exceeded the value of the gold. Had everyone demanded their gold at the same time the system would have broken down, but as things worked out confidence in the paper record outweighed the risks of holding the actual gold. Then again, with the huge increase in trade of modern times, nothing like enough gold has been mined to be used as coin or for the 100% backing of notes, and this is a second reason why it is not used as day by day currency.

Everyone is familiar with the coins of their own country, and for dealing in comparatively small amounts they are very convenient. Even so, the value of the metal of which British coins are made at the Royal Mint is only a fraction of their face value.

In the case of notes, these are certainly more convenient than coins for larger amounts, if only because they weigh so much less. They are known as the Fiduciary Issue and, in the case of Britain, are printed by the Bank of England and some of the Scottish Banks to the order of the Treasury. The number so printed is determined by the Treasury, and over the years from 1922 to 1951 was increased from £122 million to £1342 million. The cost of printing such notes is little more than the cost of the paper and ink, and the profit in producing such notes rightly belongs to the Treasury, acting on behalf of the nation.

All Britons have more than a passing acquaintance with the £1 note, but are by no means clear as to whether such notes have any value in themselves. It is, however, quite simple to reason it out by imagining what would happen if for a whole month there was a 100% power cut and all production, transportation and other services came to a standstill. By the end of that time there would be nothing left in the shops and, therefore, the pound would buy nothing. Obviously, it would then be valueless and, in fact, it is only the goods and services for which it can be exchanged that give it its purchasing power.

An example of a note that has lost all purchasing power is shown opposite, this being a 100,000 million Greek drachma note.

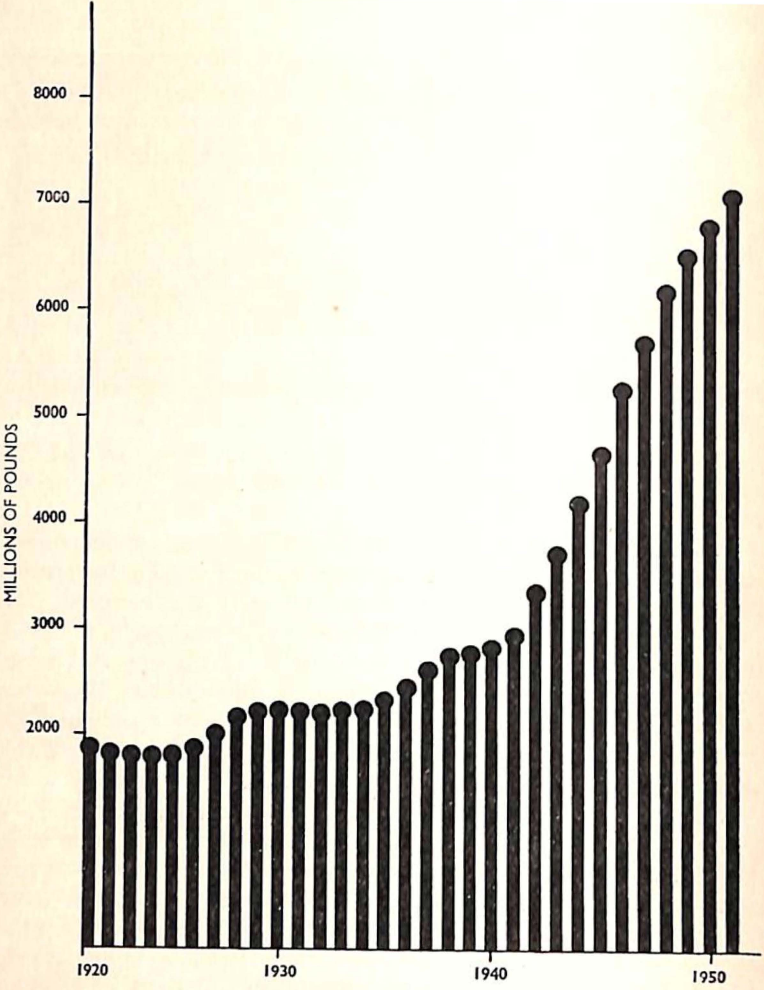
In 1941 the British pound was equivalent in value to 49

drachmas, and hence this note would have been worth £200 million at that time, instead of only the paper it was printed on four years later!

Even with coins and notes it would be inconvenient for the majority of commercial transactions to be handled by sending bags full of these forms of money all over the country. The dangers of loss or theft would necessitate a high insurance premium. Thus, the largest proportion of the money in this country is in the form of cheque or book entry money, known as credit. The ability to pay and receive payment by cheque is a tremendous convenience, and there is no doubt that the Banks have rendered, and continue to render, the community a fine service by the introduction of the cheque credit system.

The amount of credit money in being at any one time is determined by the Joint Stock Banks, who maintain their customary ratio of, perhaps, 10 or 12 pounds of credit money for every pound of coin, notes or Bank of England cheques. In other words, the Joint Stock Banks can create deposits or lend to the extent of 10 or 12 times the amount of cash and Bank of England cheques which they hold. The actual amount of money in circulation, including coin, notes and deposits or credit money, has been increased over the years 1920 to 1951 as shown in the chart overleaf.

It is when we consider how this credit or book entry money comes into being that so many people are surprised, the reasons for their surprise being, firstly, that perhaps they have never given any thought to it and, secondly, have always regarded money as being something of value in itself, instead of simply



AMOUNT OF MONEY IN CIRCULATION IN U.K., COINS, NOTES AND DEPOSITS

FIGURE 3

representing value. In consequence, if a recognised authority is consulted, such as the Encyclopædia Britannica, Volume 15, under 'Money', what it says is probably rather different from what the majority of people would reply if asked, namely:—

> 'Banks lend by creating credit, they create the means of payment out of nothing.'

Unless credit money is valueless in itself, like notes, it would not be possible to create the means of payment out of nothing, as is rightly stated. This matter is, of course, very important, and the British Government appointed a Committee on Finance and Industry under the Chairmanship of the Rt. Hon. H. P. Macmillan, K.C., who reported in June, 1931, as follows:—

> 'It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit.'

Prior to that time, a former Chancellor of the Exchequer and then Chairman of the Midland Bank, said at the annual shareholders' meeting in January, 1924:—

> 'I am afraid the ordinary citizen will not like to be told that the banks can, and do, create and destroy money. The amount of money in existence varies only with the action of the banks in increasing or decreasing deposits and bank purchases. Every loan, overdraft or bank purchase creates a deposit, and every repayment or bank sale destroys a deposit.'

This statement, which is entirely in accordance with the Macmillan report, is also of interest because it confirms that there is no limitation to the amount of credit money that could be provided if it were necessary. Clearly, there can be too much money in circulation, as in a Sellers' Market, and too little as in a Buyers' Market, when output has to be curtailed; the former condition of inflation being comparable to economic robbery, whilst the latter, or deflation, is akin to economic suicide, in which those who determine such a course are suffering from an 'unsound mind'.

At the present time in the United States the average output of each person employed is just over $6,000 a year and, in consequence, the non-production of the 3¾ million people unemployed is equivalent to a loss of wealth in terms of good and services of $20,000 million a year! Unfortunately, insufficient people realise that it is not the money itself that creates the wealth, but without the money in circulation the goods and services remain uncreated and, therefore, unexchanged. The standard of living is reduced to this extent, and although the main burden falls on those who are denied the opportunity to work, it is probably true to say that a considerable proportion of what the unemployed people consume has to be found in one way or another by the rest of the community.

Perhaps, then, the most important requirements of a monetary system are:—

(a) To maintain the right amount of money in circulation, so as to enable the full resources of the nation to be used in peace.
(b) To maintain a stable value of the monetary unit, which is equivalent to keeping the Cost of Living Index stable.

Under the conditions of a Sellers' Market, as is commonly recognised, the effect of a shortage of production and a surplus of money in circulation is to raise the Cost of Living Index, subject of course to rationing and controls. In a Buyers' Market, the effect of large production and shortage of money in circulation is to cause the Cost of Living Index to fall, again subject to artificial countermeasures, such as the pegging of prices and restriction of output. Nevertheless, under the free conditions of Supply and Demand, the relationship between the volume of production, the amount of money in circulation and the purchasing power of the money, or Cost of Living Index, can be represented by a pair of scales.

The Sellers' Market is shown in Figure (4).

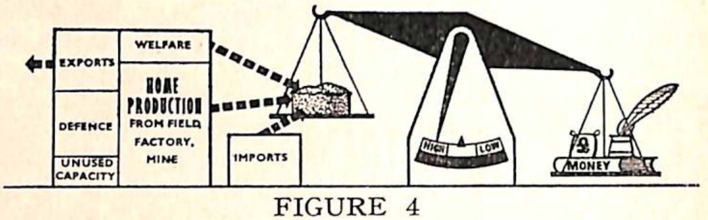


FIGURE 4

The Buyers' Market is shown in Figure (5).

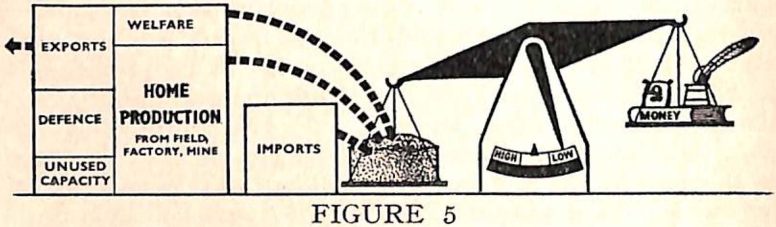


FIGURE 5

It is sometimes argued that, if the rate of circulation of money varies, as happens to some extent if buyers anticipate a slump and, therefore, slow down buying, or conversely if they anticipate a shortage and, therefore, accelerate their buying, then the relationship shown by the scales requires adjustment. On the other hand, the expenditure of the average wage or salary earner, and many others, which represents a large proportion of the nation's buying, remains very constant. Family budgets vary little week by week or month by month and, in consequence, the relationship shown by the scales is sound and, in physical form, lends itself to demonstrating some of the most important fundamentals of economics.

Such inflationary effects as a 'favourable' balance of trade can be clearly shown with actual scales, the net result being to reduce the amount of goods and services available in the home market. Restriction of output in the home market, whether by capital or labour or both, is also inflationary, unless the amount of money in circulation is correspondingly reduced. In either case the standard of living is lowered. Reduced output for exports would lower the home standard of living if it caused a reduction in necessary imports. Common sense, however, would suggest that it is better business to export, for example, two tons of steel to pay for one ton of rice, rather than three tons of steel, although the advocates of the 'favourable' balance of trade, strangely enough, hold the opposite view. Under the more common-sense way of thinking, the one ton of steel could then be used for the benefit of the home market.

One thing, however, is quite sure, and that is that if the volume of production doubled in value, the purchasing power of the money unit—in our case the pound—would double, assuming only that the number of pounds in circulation remained the same. Likewise, if the amount of money in circulation doubled and the volume of production remained the same, the purchasing power of the pound would be halved. The scales, with the indicator representing the Cost of Living Index, completely reflect these conditions, however chaotic they would be. In other words, the scales are a means of visualising these very important relationships.

The next step is to consider what influences each side of the scales. The subject of production has already been dealt with in Chapter II, and it was shown that if the resources of an industrial nation such as Britain are not restricted, there will be a steady increase in output of, perhaps, 3% a year. Both the United States and Canada have doubled their respective outputs within the last fifteen years.

On the money side, it should be quite clear that there is no physical limitation to ensuring sufficient money in circulation to keep step with the volume of production, and so maintain a steady Cost of Living Index or purchasing power of the pound.

The fact that from 1945 to 1950, in a period of inflation or Sellers' Market, £1325 million of new money was created and put into circulation was thoroughly wrong, and indicated a serious misunderstanding and mishandling of the economic conditions in Britain. In this respect, the author published a booklet in 1943 entitled 'A Better Britain', which included the graph in Figure 6. This shows quite clearly that, in his view, at that time no new money should have been put into circulation until 'supply caught up with demand'—in other words, when the Sellers' Market was about to change to a Buyers' Market:—

The graph was described at that time as under:—

> 'The easiest way of showing the six-year period after the war, during which conditions can change from those of scarcity to increasing plenty, is perhaps by a graph. The top line shows the steadily increasing amount of goods and services that are produced as men in the Services return to industry and as war factories change over to peace-time production. At some point, maybe in three or four years' time, supply will catch up with demand and the Price Level, which will have been falling slightly as goods come on the market, will then have to be kept stable by increasing the amount of money in circulation as shown in the middle line. If this *is* done full production can be maintained, and if it is *not* done fields, factories and mines will become idle and unemployment will steadily rise. Scarcity will remain.'

Had a monetary policy, however, been adopted from the end of the war in 1945 of maintaining the amount of money in circulation constant until supply had caught up with demand, there is no doubt that the Cost of Living Index would have fallen from its inflated level and, in consequence, the purchasing power of the pound would have increased. As events turned out, and despite their great generosity under Marshall Aid, a recession or Buyers' Market started in the United States but, by 1950, the large expenditure on the defence programme, including the war in Korea with all the subsequent stock piling, absorbed a not inconsiderable proportion of the productive capacity on the North

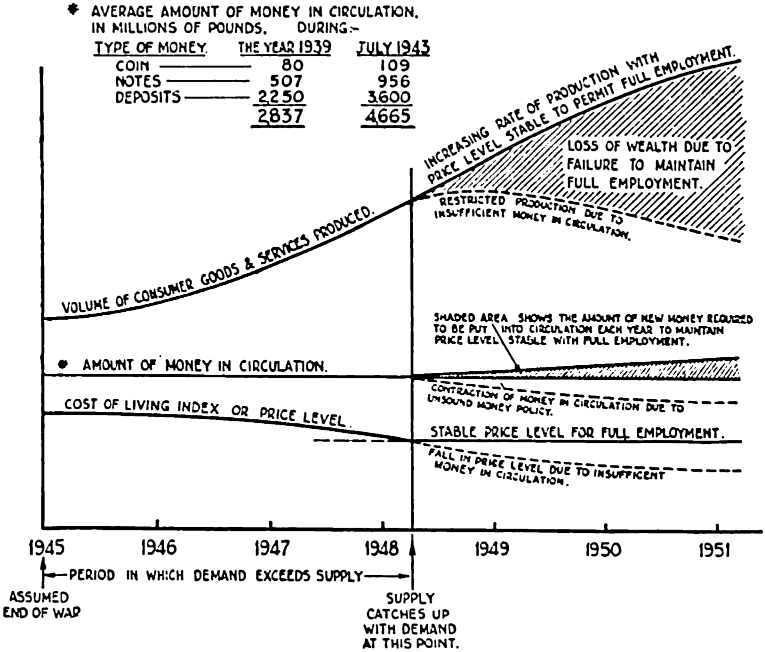


FIGURE 6

American continent. In Britain, on the other hand, the defence programme now absorbs about 13% of the nation's capacity, and social services and subsidies about 12%.

Thus, although in Britain in 1954, there is nominally 'Full Employment', there is nevertheless a considerable amount of restricted output, or unused capacity, particularly in the non-expanding industries such as coal, railways, docks, etc. However, more will be said later about this important aspect, which makes the term 'Full Employment' almost meaningless.

The next point of major interest concerns the cost of creating and putting into circulation the new money which is necessary to sustain and, in fact, make possible a steady expansion in national output of, say, 3% a year, instead of the miserable 1½% that has been achieved in the last 50 years. At the present output of about £13,000 million, such an increase of 3% would mean the production of an additional £390 million of goods and services each year for which additional purchasing power would be required. If credit money, or currency notes for that matter, were worth their face value, then there could be no such thing as inflation, with corresponding depreciation in the purchasing power of the pound. More money would, of itself, mean more wealth, and this we know is untrue.[1] Thus, the cost of creating the coins is only a fraction of their face value, the cost of the notes is the cost of printing, and the cost of the cheques or credit money is the cost of servicing and clearing the cheques in the banking system. This should not exceed $\frac{1}{2}$ to 1% per annum.

The next thing is to consider what repayment is due to the financial system for having very properly created the right amount of new money. In the case of the notes, or Fiduciary Issue, no capital debt is created, requiring repayment to the banking system, and there is no more reason, other than custom, why a capital debt should be created when new and additional credit money is issued. It should, of course, be realised, as the late Mr. McKenna said, that every loan, overdraft or bank purchase creates a deposit, and every repayment or bank sale destroys one. If, therefore, the amount of deposits created was the same as the amount of deposits destroyed, there would be no change in the amount of money in circulation. As shown in Figure (3), however, the amount of new money created in Britain during the last 30 years has been very considerable.

Then, again, a point that frequently leads to confused thinking on the subject of debt repayment concerns the difference between what happens when the 'non-banking' element lends, say, £1000, and the 'banking' element does likewise. The former inevitably foregoes £1000 in the act of lending and, therefore, is entitled to repayment in full at reasonable interest, depending on the risk involved. When the banking system lends, it does not necessarily forego anything, as in the creation of additional deposits. 'Banks lend by creating credit, they create the means of payment out of nothing.'

One form of bank lending is to the Government of the country but, whether it be in Britain, or in the United States or elsewhere, the procedure is, in principle, similar. In the United States, for example, the position was put very clearly by Mr. Marriner Eccles, Chairman of the Board of Governors of the Federal

[1] The wartime slogan of 'War Savings are War Weapons' was quite misleading if taken literally. It was the product of intensive human effort, raw materials and machines which created the weapons. The savings simply ensured that this productive capacity was made available for weapons and not for consumer goods.

Reserve Board, when testifying before the Banking and Currency Committee in Washington in 1935: —

> 'In purchasing offerings of Government bonds the banking system as a whole creates new money, or bank deposits. When the banks buy a billion dollars of Government bonds as they are offered—and you have to consider the banking system as a whole—as a unit—the banks credit the deposit account of the Treasury with a billion dollars. They debit their Government bond account a billion dollars, or they actually create *by a book-keeping entry*, a billion dollars.'

In the same year Mr. Marriner Eccles, in a speech to the Ohio Bankers' Association, said: —

> 'There is no political or economic power more charged with the general or social interest than the power to increase or decrease the supply of money. If the sovereign authority delegates this power to a particular group or class in the community, as it has done in large part in this country, it divests itself of a part of its effective sovereignty. . . . The power to coin money and to regulate the value thereof has always been an attribute of a sovereign power. It was one of the first powers given to the Federal Government by the Constitutional Convention. The development of deposit banking, however, introduced into the economy numerous private agencies which have power to create and destroy money without being recognised as creators or destroyers of money by the Government or the people.'

More recently, The Secretary of the Treasury in Washington, in a letter to 20,000 American corporations on April 25th, 1943, wrote: —

> 'If the Government is compelled to go to the commercial banks for the bulk of these funds, the result will be to increase inflationary tendencies which are already serious. This is true because when commercial banks buy Government bonds they do not pay for them with actual cash taken from their vaults, but by placing on their books newly created deposits to the credit of the Government. When the Government draws on these deposits to pay for the goods and services it buys, the purchasing power of those to whom the payments are made is increased *without any decrease in the purchasing power of those from whom the money is borrowed.*'

Perhaps such quotations of leading financial authorities may be a little tedious; nevertheless their meaning should be clear to everyone. It is suggested, therefore, that some day the creation and issue of new money in the right quantity, will be carried out on a sounder and more consistent basis than hitherto. At that time, this function will be the duty of the Central Bank acting on behalf of the Government. The other excellent services of the Joint Stock Banks will be carried out by them in their normal private enterprise capacity. The benefits of such a change, and some examples of how it would work, will be dealt with in succeeding chapters. But lest the reader should feel that such a conception is too fantastically wild, this is what the Rt. Hon. Mackenzie King, former Prime Minister of Canada, said in 1935:—

> 'Until the control and issue of money and credit is restored to the Government and recognised as its most conspicuous and sacred responsibility, all talk of the sovereignty of Parliament and of Democracy is idle and futile.'

Unless the economics are right, what chance can there be for sound and statesmanlike politics?

6

POLITICS

THE SUBJECT of politics and politicians has probably occupied more printed space than any other. So much has been said, so much has been done, and yet so much remains to be done if freedom in its truest sense is not to be extinguished. Hence, this chapter will endeavour to present the role of politics under conditions of sound economic policy, suitable for modern industry and trade. The sounder the economics, the sounder the politics.

In Central Europe Democratic governments have already succumbed to totalitarian regimes, and the survival of democratic government cannot be taken for granted unless its main instrument, namely politics, is as true and, metaphorically, as strong as tempered steel. Can these qualifications be applied to the governments of some of our Western European friends at present? Is the right policy always adopted, or does the pressure of events too often dictate the line of least resistance? Seldom, in politics or anything else, does the line of least resistance lead in the right direction. Criticism is, of course, so easy, and even during this unbalanced twentieth century our own Mother of Parliaments has time and again adopted a policy of expediency for which its people have paid most dearly in the end. Explanations and excuses are so convincingly given by politicians, and accepted by their Party friends, that few today expect the whole truth and nothing but the truth.

What, then, is the fundamental reason for this too frequent policy of expediency? One main reason is that economic pressures are nearly always stronger than political forces. Hence, if the economics are not right, such that the resources of the nation are not fully used, then some sections of the community will be getting insufficient, whilst others will be overburdened by taxation or robbed by inflation. A feeling of injustice and disunity is almost a certainty. The fear of unemployment can do just as much to restrict output as the deliberate decision of industrial management to curtail production. Politics, as at present practised, generally shows up so poorly in such circumstances. Let us, therefore, seriously consider what Mr. Mackenzie King meant when he said, so forcibly, that the control and issue of money and credit should be restored to the Government and recognised, not as a secondary matter, but as its most conspicuous and sacred responsibility. Furthermore, unless this tremendously important change is made, all talk of the sovereignty of Parliament and of Democracy is idle and futile.

Firstly, few would dispute, whatever their party politics, that Mr. Mackenzie King, Prime Minister of Canada for 25 years, was a politician of immense experience and achievement and one of the greatest statesmen that the Commonwealth has ever produced. Secondly, that what he said, as quoted in the previous chapter, was quite unambiguous; there could be only one meaning. Thirdly, what he wanted to bring about, as a monetary reform, for some reason or reasons never happened. Because it was never brought about, however, is no valid reason why his proposal should not be examined most thoroughly. When all is said and done, if the orthodox view had persisted that heavier than air machines could not possibly fly, we would still be in the balloon era—the remarkable advance to the present standards of flying could not have happened. Orthodoxy alone should be no barrier to the way that leads to freedom, prosperity and peace—the main objectives of true democracy.

Let us suppose, then, that the United Kingdom Government decides that, in this second Elizabethan era, it will exercise the sovereign right of controlling and issuing through the Central Bank the money and credit necessary to enable the resources of the nation to be fully used. The Central Bank would in no way interfere with the normal operations of the Joint Stock and other Banks. It would, in fact, operate on behalf of the Government, according to a strict Financial Charter, as follows:—

(a) To maintain the right amount of money in circulation, so as to enable the full resources of the nation to be used in peace or war; this amount being determined by the necessity to maintain a stable purchasing power of the pound or Cost of Living Index.

(b) If the volume of production decreased, necessitating a reduction in the amount of money in circulation, the Central Bank would act accordingly, or advise the Government what increase in taxation would be necessary to prevent the Cost of Living Index rising. Where, however, the amount of money would have to be increased in order to keep step with an increase in national output of, say, 3% a year, then this new money would be created, debt free, by the Central Bank, but with an agreed service charge payable to the Banks of, perhaps, ½ to 1%.

(c) The determination of how best this new money would be injected into the system would be the responsibility of Parliament, acting through the Chancellor of the Exchequer, and as explained shortly.

(d) The Central Bank, in the case of international trade, would serve as the nation's controller of foreign exchange, in collaboration with the Central Banks of other nations, at the International Clearing Bank, as briefly outlined on page 31.

The economy in any industrial nation can, at different times, do three things. It can remain static with a measure of restricted output. It can have a recession because, under the present rules, capacity to produce is no guarantee of ability to consume. It can expand its output to the extent that such output can be purchased. Under the conditions of boom and slump all three circumstances can happen and, as already explained in Chapter I, boom is more associated with war and slump with peace, to the discredit of existing economic thinking.

However, under the new Financial Charter outlined above, the Government would no longer accept the deplorable policy that 'however desirable on general principles continuous expansion of trade and industry may be, such developments must accommodate themselves to the actual supply of capital and credit available'. Nor would it be possible for a Cabinet Minister to make a statement in the House as the then Paymaster General, the Rt. Hon. Sir William Jowitt, did on the 1st December, 1942, when he said: —

> 'Finance must no longer be the master' . . but 'all plans must be subject to the limitations of financial resources.'

In fact, the Government would reverse this hitherto accepted policy of financial limitation and proclaim quite clearly that, in future, the limitations would be solely those of using the resources of the nation fully by ensuring the right amount of money in circulation. It would mean, in practice, that if the national output increased by 3% a year, then the right amount of money would be created and issued,

Before giving some examples of how the dog would wag its tail, instead of the reverse procedure, it is necessary to consider whether the United Kingdom economy is at full stretch simply because statistics show that there is 98·5% full employment.

One of the assumptions that has proved quite unreliable in the post-war years is that unemployment automatically shows itself in the official records. In free enterprise concerns it is probably true that personnel are not kept on after a while if there is no work for them to do, although restrictive practices, where in force, undoubtedly succeed—as is their purpose—in keeping more people employed than is necessary for the work involved. In the non-expanding industries, however, the position is different. A non-expanding industry is one in which the demand does not increase more rapidly than the effective introduction of labour-saving devices reduces the amount of labour required, as in the case of coal mining, railways, docks, etc.

As a maker of labour-saving devices for most of the principal industries the author holds the firm conviction that, if the three industries mentioned were to become efficient during the next ten years by the acceptance and effective use of modern equipment, then the present labour force of 1,400,000 people would be steadily reduced to half that number by 1964. Unfortunately, the problem of what would happen to the 70,000 persons rendered redundant each year is apparently more than our present political, industrial and financial leaders are prepared to tackle. Too often it is said that the problem does not exist because 'it is now generally recognised that labour-saving devices do not put people out of a job because they create more jobs.' This is true in an expanding industry, and, in the author's own works, where output has been increased four times in seven years, with only twice the number of personnel, there is never the slightest difficulty in introducing machines which enable one man to do the work of a number.

Unless, therefore, in the non-expanding industries the amount of manpower is reduced, it is not possible to raise wages and salaries without raising prices. Nor is the political argument very sound which says the redundancy problem will be solved if the older men are allowed to retire and younger ones are not recruited. For example, the average output per week of the 300,000 miners at the coal face is about 15 tons, which contrasts with 180 tons a week made possible by the installation of the latest coal-cutting machinery at a Northern pit. Although this machinery may not be suitable for all pits, nevertheless, if it were used in a fair proportion of the better ones, it might raise the average output of face workers to 100 tons a week. This would mean that only 50,000 would be required, or about 16%.

At another pit, the introduction of new plant reduced the number of miners from 1400 to 800 in a few months, whilst still maintaining the output. It so happened that in this case the men were absorbed locally, but if such an improvement were introduced generally throughout the mining industry over a period of years, a big number would be rendered redundant, even with a 10% or 20% increase in total output.[1]

In the case of the 15-year, £500 million National Coal Board programme which, at the end of that time, is planned to produce 20 million tons more coal each year with 68,000 fewer miners, the increase in productivity works out at less than 2% a year. On that basis, if the price of coal is not raised, the maximum increase in miners' wages, assuming an average of £10 a week at present, obviously could not exceed 4/- a week a year, unless the deficiency is met by taxation or inflation, both of which reduce the standard of living of the rest of the community. Even so, the price of coal is so comparatively high that ships and locomotives are rapidly going over to oil burning and nations with water power are less likely to buy coal in the future than in the past. When a steam shunting locomotive has an efficiency as low as 5%, it is hardly to be wondered at that the fuel cost is five times that of the equivalent diesel locomotive. Economic pressure can be very great.

So long, therefore, as the problem of redundancy remains untackled, we shall be far from achieving a generally accepted policy of securing the maximum amount of coal with the minimum number of men working under the best conditions. Only in so doing can the price of coal be reduced, the quality raised, and the remuneration to the personnel be the highest.

[1] The problem of the gradual transfer of miners into other industries is by no means severe. Some of the best men in the author's Works are ex-miners.

In the power station industry, where some 30 million tons of coal are consumed, the labour cost of handling a ton of coal has been reduced in the last 35 years from 6d. to ¼d., although wages have been increased five times. This represents an increase in productivity of more than 10,000%, which is indeed remarkable. In the one case the question of redundancy does not arise and, in the other, it is a major political, social and economic problem.

Because of the vital nature of this redundancy problem, and the incalculable value of finding a satisfactory solution, it is worth considering what was the influence on the coal industry in the period 1920 to 1938 of the improved efficiency of the steel industry in the United Kingdom. Although the output of steel was the same in both years, instead of 30 million tons of coal being required as in 1920, only 18 million tons were needed in 1938—a saving of 12 million tons, or the output of 40,000 miners. The solution at that time was to put the miners on the dole and, quite naturally, they took a poor view of the unwisdom that argued that it was financially cheaper to pay them a pittance to do nothing. There were, in fact, lots of people who were short of coal but, being unemployed, they had no means of acquiring the money to pay for the coal that could have been produced.

So, once again economic pressure produced a political answer, namely nationalisation, but it still did not solve the problem of providing the maximum amount of good coal at lower, rather than higher prices and with the minimum number of men. It did not provide the answer as to how those rendered redundant could be attracted into, and usefully employed in other industries, thereby raising the general standard of living instead of lowering it by restricting output. Perhaps it can be claimed that the miners have secured better wages under nationalisation, but the rest of the community, who are perhaps glad not to work underground, are not so pleased from the price or quality aspect, and important industrial consumers are turning away from coal to other forms of energy. Instead of the dole and unemployment, there are full wages and hidden unemployment. The industry remains sickly.

In the case of the railways, where hidden unemployment, or unproductive manpower, is very considerable, as anyone who knows would confirm, the productivity factor is pathetically low, remuneration is generally unattractive and the majority of industrial concerns use the roads if they can possibly avoid the slowness and uncertainty of the railways. Despite the exhortations on the part of the Government to increase productivity, the best the 'powers that be' seem able to do at present is to leave the redundant personnel to while away their time, to raise wages and salaries, and to increase charges so as to try and avoid further losses. What a policy of negation; what an incentive for still more traffic to leave the railways never to return, and all the time failing so tragically to realise that the capital of the nation is the combination of manpower, materials and equipment, not its pieces of paper, however important they may be.

As a further indication of how the coal trade is leaving the railways, it is of interest that of the 29 million tons consumed in British Electricity Authority stations in 1949, 5 million tons had to be carried more than 25 miles by rail. By 1960 coal consumption is estimated to increase to about 45 million tons, but only 5½ million tons will be transported more than 25 miles by rail.

> 'This economy in transport will be achieved by constructing a number of large new power stations near the coalfields, and transmitting electricity in bulk from these stations to the centres of demand.
>
> 'By 1960, the authority plan to transmit electricity equivalent to some 8 million tons by means of the 275,000 volt Supergrid.'

The same kind of thing is happening in the gas industry, where large and efficient gas works are replacing numerous small and relatively inefficient works. The coal will, therefore, move over a shorter distance and the gas will be more economically distributed by the gas grid.

The problem of redundancy is very much the same in the docks, where the introduction of labour-saving devices is also a major issue. Yet when an entirely new port is constructed, as for example at Seven Islands on the Gulf of St. Lawrence, to handle 10 million tons of Labrador iron ore a year, and redundancy does not arise, the most effective engineering plant can be used and welcomed. In consequence, 32,000-ton ore ships will be loaded in less than five hours by about a dozen men—a rate of 600 tons per hour per man.[1] Incidentally, the diesel locomotives will haul 9,000-ton trains, which is about eight times that of the heaviest in Britain, at twice our average speeds.

[1] The loading rate in the main United Kingdom ports for general cargo is 1 ton per hour per man.

Thus, the author contends that the greatest of all political and economic prizes will go to the Government that satisfactorily solves the problem of redundancy and thus liberates the latent productive capacity, not only for raising the standard of living, but also for lifting the whole morale in industry.

At this stage, therefore, it is necessary to consider what steps a Government, having adopted a sound Financial Charter, as outlined on page 48 could, and would, take:—

(1) It would realise that everyone in the United Kingdom efficiently employed in useful work has an average output of about £600 a year, some considerably more, some less. That unless this £600 of goods and services can be purchased, either at home or overseas, the output of one person will be restricted in one way or another. If the £600 is exported, then there will have to be £600 of purchasing power in the home market to pay for the equivalent value of imports. The purpose of exports is to pay for imports, not to export unemployment.

(2) It would make it understood that only when industries or producers are efficient can there be the best product at a reasonable price, the best remuneration and conditions of work and the best financial return, whether the concern is privately or publicly owned. In the case of such industries as coal mining, railways and docks, it would estimate an annual reduction in personnel of 70,000 for about ten years. These people, if attracted into other industries where they could usefully be employed, would produce an additional £40 million of goods and services each year. In ten years, an increase of £400 million.

(3) In order to consume this additional volume of production, additional purchasing power would be required. To those who still asked the usual question of 'where is the money to come from?' the reply would be—the Government have introduced as their first and foremost duty the Financial Charter, with terms of reference on the lines of those set out on pages 48 and 49, because the nation has decided that, in future, finance will serve rather than dictate.

(4) The Government would make it quite clear that it has certain very prior commitments to provide for, as for example, in 1953-54:—

		£
Defence Preparations		1635 millions
Family Allowances War Pensions National Assistance Government Contribution to Insurance Fund	}	394 ,,
Assistance to Local Authorities		240 ,,
Health Service		411 ,,
Education		286 ,,
		£2966

All of these have to be paid for by diverting the corresponding productive capacity in terms of manpower, materials and equipment from the private consumer, and obviously it is done by taxation. In consequence, there is a limit to how much more the private consumer could have, and this is determined by how much more could be produced by a practical policy which would eliminate restriction of output and enable men and women rendered redundant in one industry or occupation to be welcomed into and usefully employed in another. If this were achieved, not only would existing equipment be fully used, but there would be no resistance to the more advanced types of equipment which are at present unacceptable in certain industries.

(5) It is almost certain that if Britain used its resources fully, its gross output would increase by more than 3% a year, possibly 4 or 5%, in which case the standard of living would rise each year by, say, £500 million—equivalent to £10 for each man, woman and child. This is not fantasy, this is what would be achieved if the Government gave such a lead. Clearly, the rate of taxation could be reduced as production increased.

(6) The Government would naturally have to clarify the minds of those who still feel as the Rt. Hon. Neville Chamberlain did on the 16th February, 1933, when as Chancellor of the Exchequer he said:—

> 'I have tried to make a rough calculation of the sum spent in State assisted works for the purpose of providing employment and for the development of various activities of local authorities, and I find from April 1924 down to September 1931, that is about 7½ years—the capital value

> of works of this kind, including housing, was about £700 millions. Nearly £100 millions a year had been spent, and what effect has it had in reducing unemployment? . . . At the beginning of the period the unemployed were 1,250,000 and at the end of it they were 2,800,000.'

No wonder the result was just about as unsuccessful as its interpretation was unsound. During this period, 1924-1931, which, incidentally, saw the birth of both Fascism and Nazi-ism, the purchasing power of the £ rose by 19·2%, the national output by 9·7% and the amount of money in circulation by 17·7%, as shown in the graphs on page 25. Had the purchasing power of the pound been kept stable, according to the proposed Financial Charter, approximately 19·2% more pounds would have been created by the Central Bank, without capital debt, and put into circulation—in other words, an additional £75 millions each year of new money. Instead of this, £100 millions of purchasing power was withdrawn by taxation and spent by the Government as described by Mr. Chamberlain. Private expenditure was reduced to the extent that the taxation was spent by the Government and, in consequence, the necessary expansion in purchasing power was not brought about.

Yet a further point so readily forgotten by the advocates of an appreciating purchasing power of the pound is that producers during the 1924-1931 period, when the pound appreciated by 19·2%, had to produce on the average nearly twentyfour shillings worth of goods and services for twenty shillings. No wonder the bankruptcy courts were busy.

(7) In addition to its day by day, or short term, policy, the Government would frame a long term policy covering 50 years. It would include the rebuilding of a large proportion of the industrial cities, much of which was built to suit the living standards of the 19th century, and is today a disgrace, the raising of agriculture and food production to a considerably more productive level, the rebuilding of the road system and the development of the Colonial Empire. Clearly, the rate at which such huge undertakings could be taken on would depend on the rate of increase in national output. As the late Lord Keynes said in February, 1941:—

> 'It is a question of materials and manpower, not of finance.'

(8) The Government would make it quite clear that with such a Financial Charter, there would be every reason for industry to achieve maximum efficiency and there would be no excuse for restriction of output either by capital or labour. There would, in fact, be a steady reduction in Government controls and regulations, and those occupied in Government offices dealing with such affairs would become available to industry, where they would be absorbed in increasing production. To give one example only. There would be no purpose in creating monopolies if there were no need to restrict output. Hence, there would be no need for the Monopolies Commission, involving large numbers of civil servants.

Democratic Government needs a vigorous and healthy opposition, but under the present unsound economic policies, the best in politics will not be achieved. Too much emphasis is placed on party political manœuvres and on political tinkering, instead of concentrating on the main fundamental issues. The success of governments in the future will be measured by the degree to which they steadily raise the standard of living of all their people, by bringing about increasing production, reducing taxation and controls, creating the maximum unity of purpose and raising the standard of justice and moral values to their highest levels. Only by putting its own house in order, and showing its readiness to live in harmony with other peoples, will a nation be worthy to be a world leader.

7

WISDOM

'Knowledge is proud that he has learned so much. Wisdom is humble that he knows no more.' COWPER.

SCIENTIFIC AND TECHNICAL KNOWLEDGE, as everyone knows, has advanced more rapidly in the first half of the 20th century than ever before, yet strangely enough, wisdom seems to be lagging behind, almost out of sight. Surely it should be possible for the peoples of the world to have enough wisdom to choose and support wise leaders who will enable them to prosper and trade with other nations in harmony. Yet so long as we fail to use our resources fully, we are bound to restrict output with all the misery, injustice and evil that is the inevitable consequence. So long as 'Trade not Aid' and increased production by other nations is regarded as a threat, as already referred to in Chapter IV, fear, illwill and economic warfare will remain the fruits of unwisdom.

However, if we prefer and continue with orthodox unwisdom, instead of unorthodox wisdom, then it is unlikely we will achieve freedom, prosperity and peace. Rather naturally, it is to our leaders that we look for wisdom, whether they be cabinet ministers, captains of industry, trade union leaders, or masters of finance, and doubtless in their respective spheres of activity they have great ability and experience. One cannot help wondering, nevertheless, whether the orthodox view has not too often become the armour of the vested interest, regardless of its wisdom or unwisdom.

Consider for a moment a major issue like wages, which has such a tremendous social and economic influence. In recent years it has become the regular practice for trade unions to press for higher wages, on account of the rise in the Cost of Living Index. Naturally, one of the main purposes of the trade unions is to improve the conditions of their members, but it is questionable how sound it is to press for higher wages because of a rise in the Cost of Living Index.

For example, suppose a maker of hats normally produces two dozen a week but, for various reasons, decides that one dozen is sufficient. Likewise, throughout the whole of the industry everyone produces half as much and, in consequence, the Cost of Living Index doubles. Should wages be doubled or should they be halved? Clearly, there is only one right answer which is the same as if payment were based on results. On the other hand, if everyone in industry doubled their normal output, because of the effective use of modern methods and, assuming the amount of money in circulation was unchanged, then the Cost of Living Index would most certainly fall. In such circumstances should wages be decreased or increased? Certainly during the 1929/1933 period, when the Cost of Living Index fell so much and unemployment was at its worst, the tendency was to reduce wages.

Thus, in both cases the wrong thing is done. The sound thing is for wages to be increased when the Cost of Living Index falls, and vice versa. Under the conditions of a sound economy in an industrial country, the effect of fully using the resources would be to increase national output each year by 3 to 5%. Thus, if there were no change in the amount of money in circulation, the Cost of Living Index would definitely fall and this would be a sound reason to increase wages. Under the terms of the proposed Financial Charter, the Cost of Living Index would have to be kept stable by the creation and issue of new money and, because of this, it would be practicable and right to raise wages.

It is not suggested, however, that the whole of the rise, say 4%, should go in increased wages and salaries, because some part might be devoted to lowering prices or increasing investment in new plant or in raising dividends. Quite obviously, the productivity in different industrial concerns varies widely and, in consequence, the tendency will be for concerns with the highest productivity to pay the best remuneration, give the best values to their customers and the highest returns to the shareholders. Furthermore, under the conditions of a sound economy, the principle of profit sharing in industry can be practised on the widest possible basis.[1] This has two great advantages, both equally important. Firstly, the salaries and wages are related to the

[1] In the author's company, where such a system has been operating for twelve years, the efficiency bonus is paid out four times a year to all personnel employed, and works out at an additional 2/- to 3/- in the £1 on salaries and wages. In the event of a loss, this is carried forward until there is a profit. The educational value of such a system can be made thoroughly worth while.

efficiency and financial success of the business and, secondly, the profit motive is not only preached, but is practised by those who believe in free enterprise.

It is not intended to enter into a discourse on the subject of profit-sharing in industry, but surely there is more wisdom in this method of payment than in the yearly struggle between the employer organisations and the trade unions, based on raising wages when the Cost of Living Index rises. If there is one clear example of unwisdom, and a sure way of destroying free enterprise, it is by paying high wages for low output and low wages for high output. There is, in the author's view, great scope for more wisdom than hitherto in this vitally important matter, however distasteful it may be to reverse existing policy.

Standards of wisdom fortunately have a habit of changing, and what is considered wise to-day may be regarded as unwise tomorrow. Sooner or later the wisdom of exporting more than is imported, thus lowering the standard of living of the exporting nation, will be recognised as unwisdom. If this seems unrealistic, ask the next American friend you meet whether, in principle, he likes his country to import cheap or expensive. He will probably reply that he doesn't like things cheap because that puts his people out of work, and he dislikes them expensive because then they are not competitive. He will most likely end up by saying he doesn't want it either way.

Likewise, until Wall Street and other financial centres boom because peace looks possible, and slump because war looks imminent, instead of doing the opposite as at present, can any sane man or woman maintain that we are on the right road to freedom, prosperity and peace? How can they?

Another example of wisdom or unwisdom which affects many people concerns Post War Credits. The purpose of these credits, as everyone knows, was to withdraw purchasing power, or money in circulation, during the war when the shelves in the shops were empty, and to restore it when the shelves became full—a very sound policy. However, when the masters of finance and captains of industry started talking about the change to Buyers' Markets, and having to curtail output, politicians on all sides were pressed as to whether the time had not come for Post War Credits to be honoured.

Thus, at the 1953 Conservative Conference at Margate, when the question was raised as to whether Post War Credits would be paid this year, next year, sometime or never, feelings were sufficiently roused that the Financial Secretary to the Treasury announced that the matter would be considered in the next Budget but, he added, it would mean 6d. on the Income Tax. Perhaps it can be rightly argued that it is premature to pay back these Credits at a rate that will take less than 37 years, as at present. It is certainly not honouring the original intention, or redeeming the pledge, to issue the purchasing power with one hand and to whip it away with the other, by raising the income tax. Such a procedure is comparable with the statement made by Mr. Chamberlain in 1932 that, despite the expenditure of £700 million on public works and so forth, during a period of 7½ years, the number of unemployed had more than doubled. As previously explained on page 56, the increased expenditure was completely negatived because an equivalent amount of purchasing power was withdrawn by taxation. In family language, the purchasing power of a family is not increased if father gives more pocket money to his children.

It would take a library of books to deal with all the unwisdom of the present era, hence mention will be made of only two further examples which, by the turn of the century, may have caused peoples' minds to change to wiser ways.

Traffic in the streets of the City of London during business hours has become progressively reduced to little more than walking pace. In terms of transportation efficiency, it a pathetically poor performance, and largely because the streets should be, perhaps, three or four times as wide, with two-level crossings at the busiest intersections. Parking space for cars is becoming more and more difficult, and if conditions continue to get worse, businesses may be forced to move out, except for a nucleus of executives. The relative narrowness of the streets applies to most cities of the world and, in consequence, the problem of enabling city traffic to move at a safe and reasonable speed becomes increasingly serious.

What, then, is the solution in the case of the square mile of the City of London? Obviously, it will take many years to get right, whatever solution is adopted, but the sooner a start is made the better. One way would be to decide that the average height of the City buildings by the year 2000 should be fourteen storeys instead of, say, seven. This would permit the building area to be halved and greatly increase the area available for streets. With buildings twice as high, gross rentals would not be impaired and, in consequence, long term finance could be arranged. It would, in fact, be just as easy to move vertically in a lift as horizontally in a vehicle. One of the main obstacles to be overcome is the mistaken belief that such buildings are not practicable on London clay. Another is the 1896 Building Act, which limits the height of a building to the height that a fire hose will squirt water. Wisdom certainly has her limitations!

A second major example concerns the density of population from which some countries are suffering, and it would seem fairly certain that in the years to come there will be major movements of people from countries like Britain, with nearly 600 persons to the square mile, compared with countries like Canada or Australia with less than 5 people to the square mile. In the past emigration of people was generally associated with the export of capital and capital goods, as in the case of the construction of railways overseas. In more recent times during periods of inflation or a Sellers' Market, when there is a demand for more labour, emigration is encouraged. On the other hand, in times of peace, when deflation or a Buyers' Market exists with unemployment, either hidden or otherwise, it is not unnaturally discouraged—additional producers are not wanted.

If, however, there were a wiser monetary system, so as 'to produce dollars to buy goods with', or pounds, etc. instead of the other way round, then nations desiring the right kind of immigrants would create and issue the necessary money and credit to enable the increased production to be purchased. Nor would it be surprising if the more progressive governments of the future in the under-populated countries used part of such credits as an incentive bonus to the individual immigrants, who, of course, would have been carefully selected. Who can tell what progress will be achieved when nations realise that their capital wealth is in the productive capacity of their manpower, materials and machinery?

Wisdom in all things is desperately needed throughout the entire community, not only for the health of a democracy, but for its survival, and the surest way of increasing wisdom is by the example of those in authority, from the Prime Minister to the parents in the humblest home. Leadership at all levels is vital, but, as history has so frequently shown, leadership, however dynamic, without wisdom is doomed to failure.

8

FREEDOM

'Freedom has a thousand charms to show
That slaves, howe'er contented, never know.'

COWPER.

THERE ARE PROBABLY more definitions of freedom than of almost anything else, simply because, even to-day, there are so many different kinds of slaves. The farm labourer, who enjoys splendid health, may envy the millionaire, little knowing that the latter is a martyr to ill-health, having become a complete slave to business stress and strain. There are, of course, the slaves of envy, hatred and malice, just as there are the slaves of any other evil or excess. To such people freedom is a stranger, an unknown friend, and on this aspect of freedom there is no authority to compare with the Bible. 'The peace of God which passeth all understanding . . .' is without doubt the supreme peace. This chapter will, however, concern some of the other aspects of this tremendous subject.

The desire for peace, or freedom from military war, is perhaps the greatest objective of all true statesmen and represents the most heartfelt longing of all peoples of the world. As far back as in 1943, at the height of World War II, the author wrote in 'A Better Britain':—

> 'Great will be the rejoicing when at last the toil and sweat and agony and tears are over and the glorious day of Victory has been gained. But even now many are anxiously fearing what will happen in the days of peace. Is it possible that complete and lasting peace can be anything more than a wonderful dream or the pious hope of politicians and statesmen? This is the thought which, apart from attaining Victory in the shortest possible time, occupies people's minds almost more than any other.'

But in case wishful thinking should supplant the winning of peace, a subsequent paragraph added:—

> 'Unless we are able to see clearly and realise our failures of the last peace-time period, there will be little chance of getting at the root causes of the terrible disease from which the whole world was suffering. If we fail to detect and eliminate the causes, as we did after the last war, then we may as well forget our hopes and when victory is won start right away to prepare for World War III.'

Certainly nobody in their senses could say at this present time that world peace is assured, or that the cold war will not become a hot war, unless the free nations have both the moral and military strength, as well as the spirit of unity, to defend themselves against a world aggressor. With the development of the hydrogen bomb, and the immensity of its destructive effect, the desire for peace is certainly greater than ever before.

Then there is economic warfare, that unfailing breeder of fear and illwill between nations, which is brought about simply because the capacity to produce becomes greater than the effective ability to consume, except when preparing for war, fighting a war, or recovering from a war. Under such conditions, output is inevitably restricted, prices are cut below the cost of production, tariffs are raised and, under the banner of 'Export or Die' nations resort to all kinds of devious practices so as to sell their exports below market price. No wonder fear preys on men's hearts and the spirit of freedom flags.

Strangely enough, few people seem able to imagine what it would be like if the resources of a nation were fully used in times of peace. Such a conception, although perfectly logical, is entirely different from the policy of 'Full Employment'. 'Full Employment' can mean hidden unemployment, restriction of output and a low standard of living. Full and effective production means that everyone who works can be usefully and efficiently employed, thus ensuring the highest standard of living and, what is generally forgotten, the fullest measure of personal satisfaction. It does, however, require a greater flexibility in industry, including that of manpower and capital.

There should, nevertheless, be no major problem on this account because so large a proportion of industry to-day is organised for semi-skilled or unskilled labour. Mass production methods, it must be admitted, may be lacking in interest to the personnel employed but, on the other hand, they not only enable the maximum to be produced and, hence, earned in the minimum time, but they make it possible for almost anyone to be employed; there is the maximum freedom of engagement. Thus, the production of motor cars, for example, employs a large proportion of people requiring little or no previous training, who are enabled to enjoy the best wages and most leisure.

Then again, some of the larger firms make such a variety of products that they have a flexibility of operations which assists stability of employment. With the march of time, new products are introduced and old ones are dropped, but the manpower continues. This is a very different state of affairs from the mine that gets worked out, or the one-product business that becomes obsolete.

In a free economy, based on full peacetime production, which, incidentally, has yet to be experienced by any nation, there are three major requirements:—

(a) The opportunity for every bread-winner to be usefully employed under reasonable conditions.
(b) The freedom of the individual to spend his or her money as desired, having reasonable regard for wisdom.
(c) The ready acceptance of output-increasing or labour-saving devices.

The combined influence of (a) and (b) would necessitate a greater mobility of manpower in industry. There would be more and more incentive for manpower to be attracted into concerns and industries needing additional personnel to meet increasing demand, and less and less tendency to fill unnecessary jobs or maintain redundant manpower doing nothing effective except reducing the standard of living for everybody else. It is not to be expected that White Papers or Official Reports will state the number of man hours engaged in crossword puzzles or listening to football results during working hours. The redundancy problem under the existing rules is very unpopular.

One of the main arguments against more mobility of manpower is the housing situation. This, however, is too easily exaggerated because, with city populations of 25,000 to the square mile and more, the number of people employed in industry within two or three miles of a man's home is likely to run into many thousands. In other words, with very little uprooting there could be a great deal more flexibility in industry. If there is to be more freedom in spending by individuals and less by Governments, whether central or local, then the pattern of production will be determined to a greater degree by the individual consumer.

To continue as hitherto, with large numbers of people neither fully nor usefully employed, amounting to, perhaps 5 to 10% of all those engaged in industry, trade and Government service, is to reduce the economic freedom of the remainder. With an average production of £600 per person a year in the United Kingdom, it would make a difference of £900 million each year if these people, amounting to perhaps 1½ million, were usefully employed, instead of non-producing in various ways, as at present. This loss, which is the annual cost of failing to solve the redundancy problem, has to be met, either by heavier taxation or higher prices, as in the case of the railways and other non-expanding industries.

Is it not true that practically every company chairman in his annual statement to shareholders in recent years refers to the crippling effect of taxation, and yet this main cause is seemingly debarred from serious investigation. Economic freedom is, in consequence, being steadily extinguished by a monetary system which mistakenly regards money as a commodity instead of a service, and as wealth instead of the measure of wealth. Under the present system production cannot expand without creating a debt or altering the purchasing power of money. No wonder conditions are crippling.

Perhaps mention should be made of freedom to progress, because when progress is barred freedom is imprisoned. Consider for a moment one of the greatest engineering projects in the world, the construction and development of the St. Lawrence Seaway. The completion of this great enterprise will enable ocean-going vessels from all parts of the world to carry cargoes to and from the ports of the Great Lakes at a lower cost than at present, when trans-shipment is made at the Atlantic ports and from there the freight is carried by rail. At the present time the cost of transportation of a ton of general cargo from Cleveland to East Coast ports is about $13, whereas it is estimated that, when the Seaway is completed, the cost will be reduced to $1.70, including the tolls. In addition, some millions of horsepower of hydro-electric power would be harnessed, thereby adding to productive capacity. With such a splendid opportunity for reducing freight costs, it would seem that such a project would be widely welcomed. The fact is that for years the project has been resisted by the vested interests which would be rendered redundant by this progressive enterprise.

If, therefore, you say to yourself in all honesty 'of course such interests would try and prevent such a project', you can hardly blame the dock unions anywhere else for resisting the introduction or effective use of labour-saving devices. Nor can you rightly claim to believe in freedom of progress, if it renders capital or labour redundant, as with the St. Lawrence Seaway and many other cases.

Lastly, no chapter on freedom could be closed without some reference to freedom from debt. With the tremendous ability to produce that science and technology have made possible, nations like the United States and Canada have doubled their total output in half a generation and, in the case of Britain, it is estimated by the best authorities that output could be doubled within 25 years from the end of World War II.

This raises a very important matter. If the amount of money in circulation were kept the same, it would mean that at the end of the period a 10/- note would buy as much as a £1 note did at the beginning. From the producer's aspect, he would have to produce twice as much for the same amount of money or, in other words, his selling price would be halved. In some of the expanding industries this could probably be achieved, but in others, including the non-expanding ones such as coal, railways, docks, etc., the chances of reducing costs to a half are quite unrealistic. In the case of a farmer, for example, who had raised a mortgage at the beginning of the period, equivalent to the price of 1000 sacks of wheat, in order to put up new buildings, he would have to sell 2000 sacks of wheat at the end of the period in order to repay the mortgage. The reverse situation, of course, happens if the purchasing power of money depreciates by a half. In the case of the mortgagor to the farmer, he would only receive the equivalent value of 500 sacks of wheat when repayment was made.

Both situations are unjust, and there can be no freedom with injustice. Hence it is essential that a stable purchasing power of the pound is maintained, even though it would necessitate keeping the amount of money in circulation in step with production. It is, of course, only right and proper that debts should be repaid, but when new or additional money is created, as explained in Chapter V, no debt is incurred by the banking system although this new credit money is subsequently loaned to the Government or the borrower as a debt. As the late Vincent Vickers, a former Director of the Bank of England, wrote in 1936 in 'Finance in the Melting Pot':—

> 'In the first place we have to remember that under the present system money comes into circulation through the Banking system only as a "debt" on which "interest" has been, or must be, paid. This seems to me to be of fundamental importance, and if examined in relation to the whole community or nation, its effects are clearly more than adequate to explain the situation to which our economic system has brought us . . .'
>
> '. . . Further, when we realise, on top of all this, that the "credit" thus lent at interest by the Banking System is not Money, which is the property of the Banks, but is created by them on the strength of the industry and prosperity of the entire community, one cannot help wondering whether the System is not capable of improvement so as to be somewhat less one-sided and dictatorial, and to afford more genuine service to productive industry, and the community at large.'

Some day the blindness of prejudice and orthodoxy concerning the creation and issue of new money will be replaced by a sounder system on the lines of the proposed new Financial Charter. Freedom from this particular form of debt money will mean freedom to progress and expand, and to raise the standard of living as never before. The word 'freedom' will begin to have a real meaning for all people.

9

SUPREME DISASTER OR MEASURELESS REWARD

'For the want of a nail a shoe was lost,
For the want of a shoe a rider was lost,
For the want of a rider a battle was lost,
For the loss of a battle a kingdom was lost.'

MEMBERS OF PARLIAMENT are undoubtedly hard pressed, and have a tremendous amount to do. But it is legitimate to ask if too much of their time is spent dealing with effects, and too little with causes. Most people are sick of wars, whichever country they may live in, and whether they are of the hot or cold variety. Yet it seems there is too great a readiness to accept the defeatist idea that wars are inevitable and insufficient time is devoted to the fundamental causes of war. In the case of roads, for example, there is a readiness to pay millions a year treating road casualties in the hospitals and yet a reluctance to modernise the road system, which would not only reduce the casualties but raise the standard of living. Surely greater priority should be given to casting out the beams which block administrative vision rather than to dealing with the motes, however many, of human imperfections.

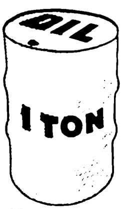
Throughout the ages lack of moral courage has generally favoured the orthodox, although the progress of science and technology that has taken place since the Industrial Revolution has created one condition after another necessitating less orthodox solutions. Thus, in modern times accountancy plays an increasingly important part, whether it be in drawing up national budgets, involving thousands of millions of pounds, or preparing company accounts with lesser amounts. In both cases, problems of money balances are involved, and those who do this work are highly trained and of great experience. Even so, not every voter understands the Budget, despite the broadcast explanations of Chancellors of the Exchequer; nor does every shareholder comprehend the annual balance sheets of the companies in which he is financially interested.

However, balance sheets involving money are one thing, whereas the balance sheets concerning modern development which influence production are another, and are much less appreciated. Thus, reference was made earlier to the influence of steel on the capacity to produce and also to electric power generation. In fact, it was shown that every man hour put into the design, construction and operation of a modern power station is multiplied about 1440 times in terms of providing physical energy for production.

In the case of Canada, her population of 15,000,000 people enjoyed in 1953 an output of 66,000 million kilowatt hours of electrical energy from the Central Stations, which is double what the Canadians had in 1939 and more than three times as much as each person had in the United Kingdom. It is also true that, during the same period, Canada has doubled her national output—surely an interesting relationship between electrical generation and production.

Turning for a moment to oil, another major factor in world output, to what extent does it influence the capacity to produce, bearing in mind that transportation is such an important item in production? Let us first apply the key as the rest is simple arithmetic, however surprising. The key, of course, is that the consumption of a diesel engine is about half-a-pint of oil per horsepower hour. In other words, the physical energy developed by the diesel in consuming this amount of oil is equivalent to 20 men working for an hour. Diagrammatically it can be shown as on the opposite page.

It follows, therefore, that when one ton of oil is consumed in the diesel, the amount of physical energy developed is equivalent to that of:



50 men working 50 weeks of 44 hours

OR

50 man years of work

The world production of oil in 1953 was 654 million metric

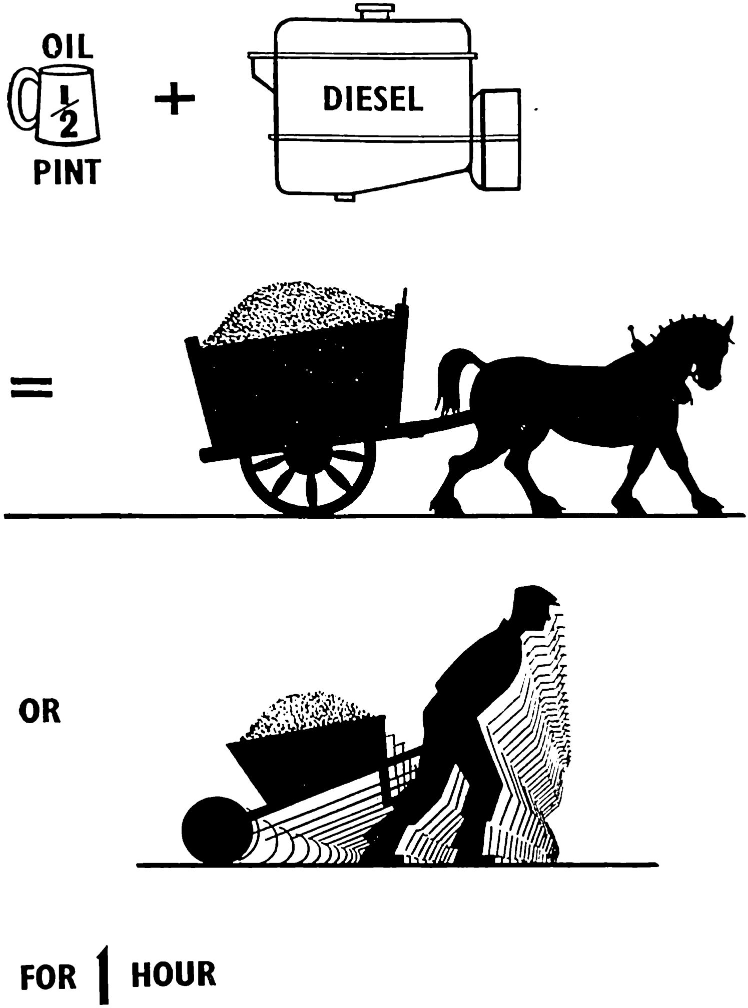


FIGURE 7

tons, and represented an increase of 32 million metric tons over the previous year. We can, therefore, say that, assuming this increase in oil was not simply poured on the troubled waters of the world, but was consumed in diesel engines[1] or steam

[1]The efficiency of a modern oil burning power station is comparable with that of a diesel engine and, in any case, the ½-pint per h.p. hour is a conservative figure.

generating boilers, the increase in the world capacity to produce in 1953 was:—

> 50 × 32 million man years
>
> or
>
> 1600 million man years—nearly one additional 'robot' for every inhabitant of the earth!

It is one thing to increase the capacity to produce, and quite another to increase purchasing power. Hence if the former is unrealised, as perhaps in the example of oil, there is a good reason why purchasing power lags behind.

In the case of the United Kingdom, oil consumption has increased from 2½ million tons a year in 1945 to 28 million tons in 1953. This is an expansion of eleven times, and represents a considerable increase in potential production capacity. In itself, however, it does nothing to increase purchasing power and, to this extent, may simply cause capacity to become redundant elsewhere.

It is suggested in all humility that those in authority, quite apart from the proverbial 'man in the street', do not appreciate clearly what modern machines can do to multiply man's ability to produce. In consequence, the industrialised nations of the world have not set the example of adapting their economic and financial policies to suit the needs of production, consumption, and trade.

The challenge to civilisation can thus be resolved into two questions:—

> Should the capacity to produce be restricted to the available purchasing power, 'however desirable on general principles continuous expansion of trade and industry may be'?
>
> or
>
> Should the amount of purchasing power be increased, as previously described, so as to enable the increased productive capacity to be purchased?

It is not suggested for one minute that there cannot be over-production in certain things, or a temporary glut, for example, in plums or radio sets. It is, however, an entirely different state of affairs when there is an overall deficiency of purchasing power. Furthermore, it should be right for consumers to determine what they want to buy, and to be able to buy all that the producers are able and willing to produce. If, however, those who believe in the orthodox practice of restricting output to the available purchasing power, continue to guide the destinies of mankind, then the following can be expected:—

(1) A certain proportion of a nation's manpower will inevitably be unemployed, employed unusefully or will be idle in the form of hidden unemployment. In no case can such 'unwanted' manpower have the satisfaction of feeling that it is wanted.

(2) The remainder of the community will have to support those non-usefully employed by increased taxation, or higher prices, particularly in the low efficiency, non-expanding industries.

(3) Some people will be grossly overworked, while others will have nothing to do, or at best will resort to 'featherbedding'.

(4) When company managements curtail output because of lack of purchasing power, labour will have little confidence in management. Even the exhortations to work harder and produce more will seem unrealistic.

(5) Industrial relations are unlikely to be improved if either capital or labour become generally redundant. The incentive to organise for restricted output by both elements will be great.

(6) Taxation will remain at its crippling level, and new and progressive developments, which multiply still further man's ability to produce, will be unacceptable, particularly in the non-expanding industries. A nation will be divided against itself.

(7) In order to make up for the deficiency in the purchasing power of their home market, nations will seek to 'capture' the purchasing power of other nations, to pass their redundancy problem on to other peoples, and to have a 'favourable balance of trade'.[1] Under such conditions is it likely that the peoples of one nation can have a favourable feeling towards the peoples of another?

In these circumstances it is hardly surprising that the first half of the 20th century should have suffered such tribulation and,

[1] Under the reparation terms imposed by Russia on Finland which ended in 1952, Finland had to export nearly £50 millon of goods each year to Russia without receiving any payment in terms of imports. Russia now has to pay for these imports by exports, and in consequence Finland's 'favourable balance of trade' with Russia is ended!

unless a change is made, civilisation in the author's view is heading the sure way to disaster.

What fundamental changes, therefore, are required if civilisation is to survive? They can, perhaps, be summarised as follows:—

(1) The general acceptance of the principle that it is sound policy to increase purchasing power rather than to restrict output. Such a change in thought could be brought about quite quickly and easily by those in authority.

(2) Nations would be expected to keep their internal purchasing power in step with their ability to produce. If their output increased, as it certainly would do with any industrialised nation that used its resources fully, then such nations would increase their internal purchasing power accordingly. The nation that had either an overall Sellers' or Buyers' market would be regarded as being economically unbalanced.

(3) Having established (1) and (2), there would no longer be any incentive for a nation to seek to capture purchasing power from another in order to solve its internal redundancy problem. International trade could then be carried on to the mutual advantage of all nations and with the maximum flexibility, as proposed in the multi-lateral contra account system outlined on page 31. Goodwill between nations could become a reality.

(4) The technique for increasing purchasing power would be based on sounder and more enlightened principles than hitherto. Money and credit would no longer be considered as having value in themselves, but as simply representing value. In consequence, as and when a nation needed to increase the amount of money in circulation, no capital debt would be created.

Governments would regard the control and issue of money and credit as their 'most conspicuous and sacred responsibility'.

These, then, are the fundamentals which will determine the way of our civilisation. Nor is it necessary to obtain the agreement of all governments to such changes. Perhaps the greatest opportunity for adopting such a policy lies with Britain and the Commonwealth. This group of nations is blessed with all the raw materials needed to enable the technical genius and manpower of its vast population to raise its standards of living as never before. But, of even greater importance and value, the evil, injustice and disunity which breed on restricted output could be eliminated.

Such an achievement is perfectly practicable, and in the course of a very few years the change would be as remarkable as it would be satisfactory. Nor would there be any exclusions against other nations who wished to trade in the same way. Furthermore, by seeing the results of the British Commonwealth of Nations using its resources fully in peacetime and gaining such tremendous benefits thereby, there is little doubt that other nations would, of their own volition, change their economic policies likewise.

These, then, are the fundamental issues which will determine the fate of civilisation, now at the crossroads. All the means are readily available either for destruction or to enable the peoples of the world to prosper and live in harmony. One way leads to 'Supreme Disaster', the other to 'Measureless Reward'. In choosing which way, mankind has to decide whether to take the orthodox line of least resistance or the harder way that needs truth, courage and common sense.

APPENDIX I

Sir Winston Churchill's Statement on the Gold Standard

HOUSE OF COMMONS

BUDGET PROPOSALS.

Vol. 264, 21st April, 1932.

MR. CHURCHILL (Col. 1662): When I was moved by many arguments and forces in 1925 to return to the gold standard I was assured by the highest experts, and our experts are men of great ability and of indisputable integrity and sincerity—

Mr. Wallhead: And they are always wrong.

Mr. Churchill: The hon. Member is not always right—that we were anchoring ourselves to reality and stability; and I accepted their advice. I take for myself and my colleagues of other days whatever degree of blame and burden there may be for having accepted their advice. But what has happened? We have had no reality, no stability. The price of gold has risen since then by more than 70 per cent. That is as if a 12-inch foot rule had suddenly been stretched to 19 or 20 inches, as if the pound avoirdupois had suddenly become 23 or 24 ounces instead of—how much is it?—16. Look at what this has meant to everybody who has been compelled to execute their contracts upon this irrationally enhanced scale. Look at the gross unfairness of such distortion to all producers of new wealth, and to all that labour and science enterprise can give us. Look at the enormously increased volume of commodities which have to be created in order to pay off the same mortgage debt or loan. Minor fluctuations might well be ignored, but I say quite seriously that this monetary convulsion has now reached a pitch where I am persuaded that the producers of new wealth will not tolerate indefinitely so hideous an oppression.

Are we really going to accept the position that the whole future development of science, our organisation, our increasing co-operation and the fruitful era of peace and goodwill among men and nations; are all these developments to be arbitrarily barred by the price of gold? Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing cornerers and hoarders of gold to put their hoards again into the common stock? Are we to be told that human civilisation and society would have been impossible if gold had not happened to be an element in the composition of the globe?

These are absurdities; but they are becoming dangerous and deadly absurdities. They have only to be asserted long enough, they have only to be left ungrappled with long enough, to endanger that capitalist and credit system upon which the liberties and enjoyments and prosperity, in my belief, of the vast masses depend. I therefore point to this evil and to the search for the methods of remedying it as the first, the second and the third of all the problems which should command and rivet our thoughts.

We Beg to Differ

FREE TRADE IN MONEY—OR BI-LATERAL BARTER, A FALSE DILEMMA.

The text of a broadcast talk given on September 9th, 1947, in the Third Programme of the B.B.C. by Edward Holloway. Reprinted by kind permission of the B.B.C.

In 1925—the Government of the day put Britain back on a Gold Standard. In 1932—Mr. Winston Churchill, who as Chancellor of the Exchequer, had been responsible for this decision, told the House of Commons he'd been assured by the highest experts that 'we were anchoring ourselves to reality and stability', and he went on to say that the views of the experts had proved to be completely wrong.

In 1945—the present Government accepted the Loan from the U.S.A. with certain commercial conditions attached, including the acceptance of the Bretton Woods Monetary Agreement. Speaking to the Delegates at the T.U.C. the other day Mr. Ernest Bevin confessed that in accepting the Loan 'our calculations were wrong'.

Here are two issues of major economic importance where acceptance of views given by the experts has led the politician into grave difficulties and the people into much unnecessary suffering. I could quote many other instances, but these two will suffice for my purpose. Now why does this happen? In my view it's because the experts think in terms of money rather than goods and accordingly put monetary arrangements first. That's precisely what they did in the Bretton Woods Agreement. This was a monetary agreement—which in our view should have been made after the vital problems of commercial policy had been settled. The London Chamber of Commerce in a pamphlet issued in December 1944, made this point quite clear. It stated—that one of the purposes of the International Monetary Fund is 'To facilitate the expansion and balanced growth of international trade'. An international financial system could, of course, be used for this purpose and, in the Chamber's submission, it should be so used. In fact, however, the International Monetary Fund does nothing to bring pressure to bear on nations to balance their accounts with the world in terms of goods and services, its provisions are directed to ensuring a balance in money; and yet there can't, in the long run, be a balance in money unless there is a balance in trade. The Economic Reform Club and Institute also put this view to the Government. In our memorandum we pointed out our reasons for believing that the Bretton Woods Agreement would not work—and we particularly stressed the obligation under present conditions of creditor nations enabling debtor nations to discharge their indebtedness by accepting a surplus of imports over exports. As we pointed out, the Bretton Woods Agreement ignores this obligation—and actually strengthens the position of creditor nations while imposing penalties upon debtor nations. We stressed that so long as creditor nations won't recognise their obligation to accept an import surplus, there is little hope of facilitating the expansion and balanced growth of international trade. We suggested that the Bretton Woods Agreement showed that the gold mentality which we should long ago have outgrown is still with us.

Again—in July 1946 we made a submission on the White Paper called 'The proposals for consideration by an international conference on trade and employment.' Our submission was to the effect that non-discrimination would prove wholly unreasonable if it meant—as it has meant—curtailing trade with our Dominions and Colonies. We further pointed out that one of the necessary conditions of prosperous international trade was the assurance of stable and guaranteed markets, and that this would certainly not be achieved under the Bretton Woods proposals. These proposals, we argued, would inevitably lead to a desperate competition for world markets—with every nation struggling to avoid default, which—by the rules of the game—was certain to be the unfortunate fate of one or more of the nations concerned. We have also made other representations pointing out that the non-discrimination clause could not work, unless every country accepted the future obligation to buy as much as they sold.

Now I'm quoting these instances to you to-night, not because there is any pleasure in saying 'we told you so', but because I think it does entitle us to expect consideration of our views in the future.

It's obvious that the attempt which has been made to re-establish international free trade in money has failed as it was bound to fail under twentieth-century conditions. There are those who argue that the alternative is the introduction of bi-lateral barter arrangements. We claim that multi-lateral trade is quite possible—between all nations who are ready to accept trading goods for goods instead of goods for debt. It is, in fact, the only way of establishing a system which will ensure the highest standard of living for the peoples of all participating countries.

The first essential is that every nation should strive to develop its own natural resources to the full, arranging their internal economy so that the volume of purchasing power at all times balanced the supply of goods and services, instead of reducing the supply of goods and services to accord with inadequate purchasing power. This is fundamental—I can't stress the point too strongly—for it was our failure to carry out such a commonsense policy that caused much of our troubles in the years between the wars. Before this war—as you all know—we restricted output and scrapped capital equipment, and we did this because we failed to realise that the real wealth of the nation consisted of goods and services. As a result of the war we are now, of course, faced with the opposite position—but the same principle applies. This policy of equating consumption with production would enable us to maintain a stable internal general price level.

One of the difficulties in talking on these subjects is the definition of the terms used. For instance, the use of the term 'favourable balance of trade' to a situation where a nation is exporting more than it imports. Now the only sound reason for a nation to export is to enable it to pay for its necessary imports. The idea that a favourable balance of trade consists of exporting more than you import is obviously wrong, when you consider the situation in terms of real wealth, i.e., goods and services.

In the effort to export their unemployment problem nations strove for a so-called favourable balance and got those countries with the unfavourable balance into unpayable debt. In doing this, they perverted the real purpose of international trade, which should be mutual benefit. Trading for mutual benefit would create goodwill and friendship between nations, whereas trading for favourable balances creates fear and suspicion. In support, may I quote these words of a former U.S. President, Mr. Woodrow Wilson, 'Peace?' he said, 'why, my fellow-citizens, is there any man here, or any woman—let me say is there any child—who does not know that the seed of war in the modern world is industrial and commercial rivalry?'

What we must seek to do, therefore, is to establish an international trading system whereby a nation wishing to be paid for the goods it exports must take payment in the form of imported goods from other countries, and—if for some reason they don't want to do this—then they must forgo payment altogether after an agreed period had elapsed. There would be little difficulty in a nation accepting payment in goods, once it had established an internal economy under which its total purchasing power equalled the total volume of goods and services available.

In the inter-war period instead of taking payment for exports in the form of imports the foreign currencies the exporting nations received were sold for what they would fetch on the Foreign Exhange, so threatening the exchange rate of the buying country; or the proceeds were used—not to pay for imports—but to buy up the title deeds of the fixed assets of other countries, and they used the interest on those assets to buy up still more. This was certainly not the behaviour of good neighbours, and arising from it international trade was converted into financial and economic war between the nations.

It was Lord Nelson who wrote to the Sicilian Prime Minister—'Nations are like individuals, make it to their interest to do what is right and they will do it'. We might take this advice to heart. The Bretton Woods scheme, which, as I have already said strengthens the position of creditor nations and imposes penalties on debtor nations, cannot be said to carry out this sound advice. And just look at the mess we are in as a result of continuing to work on these lines. We must set out to give nations no option, but to do what everybody agrees is the right thing, namely, to take goods and services in return for exports of goods and services. We must also make it impossible for one nation to upset the internal economy of others by selling their currencies on the foreign exchange. Each nation must be left entirely free to decide whether it wants to do a lot of foreign trade or a little foreign trade, but in so far as it stops imports by tariffs it stops its own exports to the same extent, unless it wishes to make a present.

We should suggest to the world that the terms and conditions governing international trade should follow this pattern. When you sell your goods to us we will chalk up on the board a credit in your favour, and you will clear that credit when you take our goods to that value. By giving you the credit we shall, in fact, have paid you, and it is for you to decide whether you wish to exercise your claim to goods or not. We propose to allow you to use the claim at any time and within a mutually agreed period—say seven years—and if you have not used the credit to buy goods by that time, we shall cancel the credit under a Statute of Limitations. We quite realise you may not want goods from us, and so, to enable you to have the benefit of multi-lateral trading we propose the setting up of an International Exchange to provide the machinery through which you will be able to exchange the claim you have on us, for claims on other countries.

After all, you know, this is only applying the same principle to nations which already applies to individuals. If I owe you a fiver and I give you a five pound note, I am not concerned whether you spend it. That is for you to decide. The same simple principle should apply to nations, and if a country doesn't wish to take imports in exchange for its exports, the only sensible way to deal with the matter is for the exporting nation to regard its exports as a gift to less fortunate nations, and here the matter should end.

In a talk of this nature I can't attempt to set out in detail the way in which such a system would work. As the aim and object is a state of equilibrium between nations, rates of exchange would need to be fixed, and once the true ratio had been agreed it should be maintained. Also we would want to use as much as possible the existing machinery, and the medium of bills of exchange, well understood by those engaged in the business of import and export, would easily lend itself to such a system. In fact, we are suggesting that international trade should be done by a system of contra account. There is no startlingly new principle involved in this. The larger proportion of trade between nations under any international system was on this basis. It was the outstanding balances, a small percentage of the total volume of world trade which caused all the trouble, and it is these balances with which we must deal by ruling that if a nation does not exercise its outstanding claims for goods and services within the agreed period the credit, under a Statute of Limitations, should be cancelled. As I have already indicated, an International Exchange would be set up, where participating nations could swop their claims at the conventionally fixed rate of exchange, and thus enable nations to trade on a multi-lateral basis.

I would suggest that in dealing with these economic questions we are not dealing with an abstract science, but with the way people and nations actually behave. It is important, therefore, to apply common sense to these problems rather than economic theory, which has so often failed us in the past. Each nation should be free to manage its own affairs, and what is supremely important if it fails to keep its balances in reasonable equilibrium with the rest of the world, the difficulties in which it would find itself would be entirely of its own making.

Now I know that many of you are thinking that the ideas I have outlined will not be readily acceptable by the main creditor nation to-day—the U.S.A. In reply I would say that we have never put up these ideas to the people of the U.S.A., and we can't say how they would react until we explain the ideas to them in understandable terms. My own belief is that these ideas are very much in line with the great democratic ideals and traditions of the United States. We do know what they did under the stress of war, when President Roosevelt, in his own words 'Cut out the dollar sign and removed the financial nonsense' by the introduction of lease-lend. In his American Commentary a few days ago Mr. Joseph Harsch referred to 'one arch conservative business man who is said to have made the plea to his Maker: "Dear Lord, let us be a debtor nation again". That plea', said Mr. Harsch, 'goes up from the heart of many an American, for being a debtor nation is something he understands.' This does not seem to me to indicate that the U.S.A. is thoroughly happy with the present state of affairs.

Judging by the magnificent response of the Dominions to the needs of Britain, there would be little difficulty in arriving at agreement with the Commonwealth and Empire. Other nations would no doubt wish to join with us. It is increasingly obvious that there is no future in the continuation of a system which automatically leads to unpayable indebtedness between nations. To maintain peace we must first establish it—for we can't maintain something which doesn't exist. Establish economic peace and much else follows. We can then set about providing guarantees that evilly disposed persons or nations shall not break it, with real hope of success, but so long as we tolerate a system of financial and economic war during so-called peace, it will be impossible to prevent outbreaks of physical violence.

The choice to be made in this matter of international financial machinery is crucial. It is a choice between peace and prosperity on the one hand, and on the other bitter trade war between nations, and history teaches us only too clearly how this usually ends.

Index to some Important Statements on the Subject of Trade and Monetary Policy

	PAGE
President Eisenhower	5
Vincent Vickers	10, 68
W. P. G. Harding, a former Chairman of the Federal Reserve Board of the U.S.A.	19
Statement by the Allied Nations at the Hot Springs Conference in 1943	19
Henry Ford	26
A Resolution passed by the Sixteenth Congress of the Federation of Chambers of Commerce of the British Empire	31
The Rt. Hon. Sir Winston Churchill, K.G.	33
'The Economist', December 26th, 1953	34
Encyclopaedia Britannica, Vol. 15	38
The Rt. Hon. H. P. Macmillan, K.C.	39
Sir Reginald McKenna	39
Marriner Eccles, a former Chairman of the Federal Reserve Board of the U.S.A.	45
A former Secretary of the Treasury, U.S. Government	45
The Rt. Hon. Mackenzie King, P.C.	46
The Rt. Hon. Neville Chamberlain, P.C.	55